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Standing committee on finance and economic affairs

Comité permanent des finances et des affaires économiques

Economic statement

Déclaration sur l'économie

Chair: Ted Chudleigh
Clerk: Franco Carrozza

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 5 December 1996

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Jeudi 5 décembre 1996

The committee met at 1550 in committee room 2.

ECONOMIC STATEMENT

The Chair (Mr Ted Chudleigh): I'd like to call the standing committee on finance and economic affairs to order. Would the members please take their seats.

The purpose of the meeting today is to hear a report from the Deputy Minister of Finance on the economic statement made by the minister last week before this committee. Mr Gourley, if you are prepared, I would ask you to proceed with your report. I understand that you'll be assisted by some of your assistant deputy ministers and executive directors as time goes by. I will leave the introduction of those individuals to you. If you would introduce them for the purposes of Hansard, I'd appreciate that.

Mr Michael Gourley: I'll do that. With me are Mr Tony Salerno, the assistant deputy minister in the ministry and CEO of the Ontario Financing Authority; Mr Steve Dorey, the assistant deputy minister, office of economic policy; Ms Anne Evans, the assistant deputy minister of finance and fiscal policy and controller with the ministry; and Mr Bob Christie, the assistant deputy minister, office of the budget and taxation. As you indicated, once we get into the questioning period, I may be asking those individuals to assist me with elaboration on any answers I might have.

In the meantime, what I would propose to do is to give a brief presentation and hope that it provides an opportunity for a better understanding of the two documents which were presented by the minister last week to the committee.

One item I thought would be useful, which is really not contained in the documents in the formal sense but is understood to be part of the formal document — this is a slide which tries to untangle some of the confusion about which quarter it is that we are talking about when we are releasing economic data and what results we have in hand to corroborate the statements we're making.

The top line shows the scale of the normal calendar year, which is the year for which we do all of our economic reporting. The first quarter of a calendar year, January through March, is the first quarter of the Ontario economic accounts or the national economic accounts, so when people talk about the results from the first quarter in economic terms, they are talking about the January-through-March period. But as you all know, our fiscal year for the province begins on April 1, and therefore the first quarter for the fiscal year runs from April through to the end of June. As a result, in any one year we can be talking about the first quarter and mean two different things, one if we're talking about the economic results and the other if we're talking about the fiscal results.

Just to confuse things a bit further, I thought I would illustrate the environment in which we are trying to understand the economics and fiscal situation of Ontario today. The study and the material you were presented with last week by the minister are based on the economic results we had up to the end of the second quarter, so up to the end of this period — the beginning of July, end of June — we had results in detail for Ontario.

What I tried to show here under this arrow was that the national results come out, say, one and a half months after the end of the quarter, so we hear results for Canada for the second quarter. If this were an ideal world and we were able to do so, we would obviously release the Ontario data for the same period. But unfortunately, we get the national results in aggregate form and then it takes Statistics Canada, working with our staff and particularly the staff of the office of economic policy, to elaborate and extract the Ontario-based results from the national statistics.

As you can see, that actually takes about a month and a half on its own and it wasn't until mid-October that we were actually able to release the specific Ontario results. Even though we had the national results in August or so, it wasn't until mid-October that we had the specific results for Ontario.

As it turns out, in mid-October we also had the financial results for the second quarter for Ontario's fiscal year. At the same time as we were releasing the economic results for the second quarter of the calendar year, if you like, we were releasing the fiscal results of the fiscal year for the second quarter. These were both the second quarter, but they are for different time periods.

It's a very significant what I'll call background bit of information. It's important to note that this very week, the day after the minister presented the statements and documents he presented to this committee, the next day we had the results for the third quarter presented. They were the Canadian results and it will take us another month and a half or so to extract the Ontario results. In January we will be, in public forum, as we do releasing every quarter, releasing the results of the Ontario economy performing up to the end of the third quarter. Even though the results for the third quarter nationally were announced last week, it will take us that long to provide the details, and we will be releasing the third-quarter financial results at about the same time.

I think this becomes particularly acute around year-end when someone says, "Why are you only telling me what happened in the third quarter of last year when the year has clearly ended?" They're talking about the calendar

year and the economic year and of course we have this delay in data. We don't have it there.

It's important to know that the documents we were looking at were based on the second quarter of the fiscal year covering this period, and the second quarter of the calendar year covering the first six months of the year. We were able to incorporate Ontario labour market and inflation information into the material that was presented.

With that understanding, I'll quickly go through some of these slides.

The presentation on the growth in Ontario's economy: We have, as you know, adopted a prudent projections policy where we are trying to use cautious and prudent projections in all the work we do our fiscal planning on. They aren't targets for the economy; they are projections that we then use to base our fiscal plans on. As a result, we hope we will always be in a position of appearing before the committee to say that we're prudent and cautious and that our prudence and caution showed up in the form of improved, that is to say, higher-than-projected economic results.

Our overall growth estimate in the budget for the Ontario economy was 1.9% and, in the documents you have before you, you now see that our current forecast is 2.3%. To illustrate the situation, I believe it's fair to say that we continue to have a prudent perspective on even that revised forecast. For example, I believe the University of Toronto has a projection which has the total real growth rate for 1996 at somewhere in the order of 2.6%. There are others out there, other forecasters, who are currently updating their forecasts based on the third-quarter results that I talked about, who will be revising 1996; but at the time at least one other forecaster was looking at 2.6% for 1996.

We've tried to illustrate this in the forward-looking sense of showing the range of our survey, as we call it. The survey of the forecasters is from this bar to this bar, where the private sector averages about 3.3% for 1997 and our current forecast, based on the material we presented in the documents last week, is 2.9%. Using a similar approach, the private sector forecasters for 1998 are showing an average of 3.4% growth. We are using 3.0% growth in our fiscal projections in underpinning the fiscal plan we have.

1600

The next slide may actually be out of order in your material, so I'd ask you to check in the handouts. This slide should start with the real gross domestic product. What I've done here is provide a comparison with the budget numbers side by side with the numbers in the document last week, that is to say, our current outlook versus the budget. We have the outlook on the right-hand side, and there you see the 2.3% growth revised and the 1.9% which was our original forecast for the real growth in Ontario's economy.

Overall consumption is perhaps the best economic indicator for our purposes of planning retail sales tax. You may recall from reading Ontario finances second-quarter report — I believe our total retail sales tax revenue is about $9.2 billion, and in the second quarter we did not change that. That's what it was originally forecast to be and it continues to be forecast at that level. Consumption increasing at 1.2%, in both the budget forecast and our current outlook, for our purposes is the best indicator of retail sales tax revenue.

As I mentioned, we're using these projections not to set targets for the economy, but rather to establish a basis for our projections for our underlying fiscal revenues.

Residential construction: We had forecast a 3.4% growth and we've talked about housing starts and so on, and now see that growing at a rate of 10.6% a year. Non-residential construction is similarly up. Low interest rates and a number of factors are influencing that statistic.

Investment in machinery and equipment is still growing in a robust way. We've shown both exports and imports here, and obviously the level of exports is down and the level of imports is down. The true picture and the important picture showing an actual increase in the net exports, from Ontario's economic perspective, is the more significant statistic.

The next set of economic indicators that we compare is retail sales. In the budget we were forecasting a growth of 1.3% and we're now projecting a slight decline of 0.5%. Here we get into the fact that it's well known that the retail sales economic indicator does not include any of the purchases that go on in the large box stores, for example, the big box stores such as Home Depot or Price Club or any of those. Those are all classified in wholesale sales. If anybody is buying goods in those stores, as many people are today, those sales are not showing up at all as retail sales, they're showing up as so-called wholesale sales.

Similarly with computer purchases, for whatever reason — and there is a long history — Statistics Canada has been classifying computer sales as wholesale sales. I can tell you that computer sales are up in the order 15.6%. The fact that they are up is not reflected at all in retail sales. In fact, if you were to inject computer sales alone into the retail sales base you would find a slight increase in retail sales rather than the decline.

So there's a bit of a problem with the measurement process we have here. Statistics Canada is going to change this, and I think it takes about three years or so. My understanding is that it will result in effect in an actual tripling of the base for retail sales, but we won't be out of this confusion for another two or three years. We'll still be appearing before this committee to say, "Yes, retail sales is doing what it's doing but it doesn't mean what it appears to mean." The retail sales measure doesn't help us with retail sales tax. You have to look at consumption, which better incorporates the other features.

Housing starts from the budget forecast are up slightly from 42.6% to 43.2%. Personal income growth is down. Pre-tax corporate profits are at 6.2%. Inflation: We've maintained our projections for inflation at 1.4%, and employment growth increased slightly, to 1.6% from 1.5%. Then, if we compare the yield on three-month treasury bills, and this obviously reflects what has happened to interest rates generally, there's a decline in the yield of three-month treasury bills and a decline from 8.2% to 7.2% in 10-year government of Canada bonds.

This continues to be illustrated on the next slide. This is simply a graphic presentation of the three-month treasury bill decline over this period, and that is a

dramatic decline by any measure and any comparison. We show the March statistics for both the three-month treasury bills and the 10-year government of Canada bonds with our current forecast of 3.2% and 6.5%, respectively, for each of those areas.

As I mentioned, we had the day after our statement a release, and I expect tomorrow there will be labour data available after this presentation that will be slightly different. I don't know what it's going to be because it doesn't get released until 7 o'clock tomorrow morning, but it will be released, and every day of every week there is a new economic statistic out, meaning that what you thought was reasonable yesterday may be different tomorrow.

Post-statement, the national count showed that the national growth was accelerating to 3.3% in the third quarter of the economic year, the calendar year, and it's led by investment, growth in exports and housing, all areas in which Ontario, obviously, has a major stake and is a major player. Corporate profits jump by 52% in the third quarter. The housing market in Toronto, and I referred to that earlier: Resales are up at 78%, and that has increased 40% year-to-date. Home building permits were up 4.3% in October alone. Total year-to-date is a growth of 17.4%. November car and truck sales: up 11% from last November and total sales up, year-to-date, 2.4%.

All this is post the documents we released last week, but it is certainly good news for Ontario's economy and will be good news for all the measures I've been talking about earlier that provide a description of the underlying activity in Ontario's economy.

This slide talks to the issue of employment generally and employment growth projections over the forecast period that was covered in the statement from 1996 through 1998. The minister talked about the 127,000 jobs created since June 1995. I don't think it's necessary to go into any more details, although we have introduced a feature here which tries to provide a better understanding of the notion of estimate, so we've got a range for the projected growth in employment, as reflected in this light bar, where we use in the document an expression of 200,000 to 300,000 jobs that could be created over the next two to three years.

Moving that from employment to real investment, I mentioned the third quarter showed, nationally, very important and significant results, and we know from the surveys that have been done in businesses that Ontario is favoured as an investment location by something in the order of 53% of businesses. This describes both the investment in non-residential construction, which is this dotted line, and the investment in machinery and equipment, represented by the bars, all continuing to grow at very healthy rates in our projections, and I think very good news for Ontario's economy and for the situation with respect to employment, personal income and so on.

The next slide covers an important phenomenon in terms of overall governmental fiscal policy across the country. There has been a uniform effort, a unison of effort, in the absence of a formal agreement to do so, that would suggest there must be a formal agreement, because you've seen deficits as a share of GDP decline from a high in 1994 of about 5.3% to the point where they're projected to be below 1%. This has a rough parallel, obviously, at the national level, but in every government across Canada you can see this effort to either increase the surpluses in the case of some jurisdictions or reduce the deficit in the case of Canada, Quebec and Ontario.

1610

We've provided here a comparison of the payroll tax. If you look at the situation in 1990 and look at Ontario's payroll tax burden on payrolls of $30,000 or so and you see the federal payroll tax burden, what has happened here is that Ontario has cut its payroll taxes and federal payroll taxes, including UI. CPP could well be increasing, although no final decisions have been made on these. We simply have provided in here a comparison to show what would happen if the EI reductions that had been suggested by the CFIB and other groups were implemented, a lower reduction than the full amount they had projected.

We've all seen this slide many times. The only point I would make here, and I think it's important for the committee, is that even though the downward trend is there, we are still at $8.2 billion. We are still in a situation where we are at two and three times the level of the deficit in the early 1980s, for example. We are by no means complete in the task, and there is still a long way to get to the balanced budget in the year 2000-01.

Medium-term targets: I think they're well known and have been clearly presented. I would just show the fiscal performance for 1995-96, illustrating that in a number of areas there were significant changes. We provided a detailed explanation of both the restructuring and other charges that resulted from decisions made by the government and also the decline in public debt interest, which, as this slide indicates, was $714 million lower last year than originally projected. So the final deficit, rather than being $9.3 billion, as was projected on November 29, was $8.7 billion.

Moving on to this fiscal year, our current outlook is the second-quarter Ontario finances, so this is after six months of operation during the fiscal year. We see a slight decline in the deficit. I simply point out that we continue to maintain, and the minister pointed it out last week, that given that there haven't been the unforeseen economic circumstances for which this reserve was set up, it's unlikely that the reserve will have to be used. You'll recall that it was set up in the budget such that if it's not used, it will go to the bottom line and be used to reduce the deficit.

We also have in this slide the $900 million in restructuring for assisting the government and its transfer partners in adjusting to the new restructured program arrangements the government has been planning. Just to provide some detail, this again is on second-quarter Ontario finances: small changes but nevertheless changes in the outlook for corporations tax; the land transfer tax, with new housing starts and so on; and other taxation, totalling $60 million; a reduction in our forecast for revenues from the Ontario Lottery Corp as a result of a delay in the implementation of the video lottery program; then on the expenditure side, almost traditional perhaps, additional firefighting costs. Because of a delay in the

implementation of the agreement with the horse racing industry there was a need for an increase of $20 million, which was completely offset by increased revenues and further savings in public debt interest of $25 million that were recognized in second-quarter Ontario finances.

Capital expense: I don't think it's necessary to dwell on that. I would like to spend just a moment, though, if I could, on another important change in what our past practice was in reporting the budget results. We were using a modified cash basis. We've adopted a modified accrual basis, and this is always simply presented as revenues and expenditures recognized when they are incurred, that is to say, expenditures when incurred and revenues when they are earned, and government operations now include on a consolidated basis the agencies, boards and commissions.

That means transfers from the government to its agencies or vice versa are not reflected unless they are external to the government. If the money comes in from the lottery corporation, that cash transfer as a profit can happen at any time, but we will recognize the results as they are recognized in the corporation. So there is a consolidation and this change.

What does that mean in terms of programs that people can understand? On a cash basis, under the Ontario student loan program, expenditures were recognized when payments were made to the lending institutions for interest or forgiveness of loans. So only at the period when those loans were forgiven, as obviously they were defaulted loans to institutions, on an accrual basis we record the interest expense, recognize when it's incurred, and we must set up provisions for loan forgiveness; we can't wait until it actually happens. We must now recognize it in advance, therefore you will see a more accurate picture of a steady state of that program.

Similarly in legal aid, it was previously the situation that we only recorded expenditures when those dollars actually flowed to the legal aid plan. We now record them when the individuals who are receiving those services in legal aid, the legal aid clients themselves, actually get the services, and we are recording those as an expense on Ontario's books in our statement of operations. There's a similar situations on pensions, and I'll leave that. I talked about consolidation and crown corporations.

I'll talk for a moment about financing requirements. Here we have about 10 different numbers that tend to get confused in discussions, but if I could start with the deficit at $8.2 billion, and with certain cash timing adjustments, that becomes $8.6 billion; we have to refinance maturing debt of about $6.1 billion; and we do some borrowing on behalf of agencies, in this year about half a billion dollars, so our total financing requirements are $15.2 billion. During the year we intend to decrease in this case our liquid reserves by about $6.1 billion and we will receive revenues from non-public sources of about $100 million, resulting in total borrowing requirements of $9 billion for the fiscal year 1996-97, and our public borrowing completed to date is $5.9 billion, so we have remaining to borrow for this fiscal year $3.1 billion.

The document provides a breakdown of where we are sourcing those funds, as it were. We have the Ontario savings bond campaign, domestic borrowing of $1.6 billion in Canadian dollars, short-term borrowing of $700 million, and this wedge at the bottom of the pie here is showing as $3.1 billion, the remaining amount.

I won't go through the individual actual transactions here. That's not my intent. It's simply to provide you with the listing to show the variety, the timing, which are a matter of market strategy that is overseen by Mr Salerno and the Ontario Financing Authority. I'll skip the Eurobonds and the Samurai bonds slide, and I think with that I have completed my presentation. I'd be happy to answer questions.

The Chair: Thank you very much, Mr Gourley. It's always interesting to know where all those numbers come from.

I to suggest to the members that we starts with 10-minute rounds. We have about 90 minutes available for questions. We'll start with the official opposition with a 10-minute question period and then move in rotation to use up that time, if that's acceptable to the members.

1620

Mr Gerry Phillips (Scarborough-Agincourt): I thank the staff very much for being here. For me at least and for our party it's very helpful. I realize there's lots going on in the ministry, so I know it's a big chunk of time.

The first question really is that I think we've all been pleased to see the growth in the economy and the increase of real growth of 1.9% to 2.3%. The surprise we had was that it hasn't reflected itself as much as we thought in growth in retail sales, personal income, corporate profits. Exports were, for us at least, surprisingly low relative to the budget. Is there something happening that is unusual here?

Mr Gourley: I'll start, and then I'll ask Mr Dorey to continue. In my own comments I made reference to the fact that what is being measured in the retail sales line obviously excludes important activities with the rise in big box retailing. That clearly gets shown under measures of wholesale sales. I also made reference to the in excess of 15% increase in computer sales, which are also captured under wholesale sales. I don't know whether, Steve, you'd care to add on in terms of the actual measures and how consumption better reflects retail activity than the actual retail sales line itself.

Mr Steve Dorey: A lot of things are consumed that are obviously not captured by the retail sales numbers. Also, as you're well aware, if you're concerned about the retail sales tax base, a lot of business inputs are not captured in consumption but are part of our retail sales tax base. When you look, for example, at machinery and equipment investment, it's quite strong, so that's obviously part of why our RST revenue is performing well.

Mr Gourley: I think there's the issue of goods as well as services and the fact that in the retail sales line, you see there goods which exclude services.

Mr Phillips: Nothing's changed over six months. Six months ago, you predicted, I gather, one thing. Box stores weren't in six months ago, they're not in now. Computer sales weren't in six months ago. It's just curious to us. We had expected a much more buoyant export number. It looks like it's down about $8 billion or $7.5 billion from the budget. Retail sales are down considerably from

the budget. It's just that the explanation that box stores aren't in was known at the budget, is known now.

Mr Dorey: Yes. It's just a very difficult indicator to measure, because trying to measure the movement between those parts of retail sales makes it difficult to measure in this environment. We think consumption is a much better indicator. When we look at the behaviour to build our retail sales tax model, that's the indicator we would use.

With respect to exports, and imports for that matter, as you know, we've had two auto strikes this year and they've had a significant impact on trade both ways.

Mr Phillips: In the document, you say, "Lower inflation adds an additional element of caution, since this implies lower revenues." What should the committee think about in terms of that statement as we look at lower inflation? What is the kind of impact that we should expect on revenues?

Mr Dorey: What's intended by that is simply we've talked a number of times about how much caution is built into the economic projections. The fact that our inflation projections are lower than the consensus simply suggests that if the consensus were to play out, we would get more revenues. That's all that's intended to indicate.

Mr Phillips: Last year in the fiscal and economic statement there was the statement that "The actions announced in this statement, coupled with permanent savings from measures announced...will achieve total savings of approximately $4.5 billion to $5.5 billion in 1996-97." What should the committee conclude is going to be the actual? Are we at that number, or is it $4.5 billion, $5.5 billion?

Mr Gourley: I think the committee should accept that on the face value, saying that this in fact has been achieved during this year.

Mr Phillips: I gather the government target total is $8 billion, so we are three and a half to two and a half away —

Mr Gourley: The Premier's indicated about $3 billion more.

Mr Phillips: Moving along here, I think the Minister of Education and Training announced that it was his intent to have quite an aggressive program on capital expansion for schools. I think I remember him saying something like including the possibility of the private sector building and then leasing schools. I just alert you that our caucus has some significant concerns, not around the concept of leasing but around the fiscal implications of where we're going on that, because we'd like to debate anyway that we aren't heading into a brand-new debt trap.

Theoretically, the province should be spending $4 billion a year on capital. I gather the province says it can't afford that. I guess my question is, can you tell us anything about the capital plans, and is the ministry looking at the implications of build/lease on perhaps jails, schools — I don't know — hospitals?

Mr Gourley: I'm not aware that the government has actually made any decision. I am aware, though, that the Minister of Education said he was looking at that concept. I think a number of jurisdictions have looked at it and, to be frank, some have gone with it and others have said, "No, that's not for us." But no decision has been made yet by the government on it.

I take your point about what this may mean for the future, and I'm sure that as we advise the government on various financing options we will be raising points similar to the one that you were implying in your comment.

Mr Phillips: I think we have to have that debate clearly, in my opinion, just so we don't fool ourselves into thinking we can't afford to build it ourselves so we can afford to lease it. We've talked with your staff actually about, could they amortize it, and what are the tax implications for various levels of governments on that?

I'll assume, Mr Chair, you'll cut us off when the 10 minutes is up.

The Chair: Yes. You have about two minutes left.

Mr Phillips: Thank you. In last year's statement there were some statements around the Ontario municipal support programs and the transit programs, that the funding for one would be $736 million and for the transit, $218 million. I think the minister indicated to us those decisions stand. I think he did, but I'm not sure. Is that the assumption we should make, that those are the numbers for those two programs?

Mr Gourley: The minister clearly indicated that the announcement on the municipal support plan had been made. I'll just have to check with my staff on the $218 million —

Ms Anne Evans: Yes.

Mr Gourley: Thanks, Anne — the $218 million also stands. Those were announced basically in November of last year for the coming calendar year and what turns out to be the municipal fiscal year.

The Chair: That might be a good chance to change to the third party. Mr Pouliot, would you like to ask some questions?

Mr Gilles Pouliot (Lake Nipigon): Thank you very kindly for your time and your excellent presentation. Of course, with the briefing you help keep us alive and we have a better understanding of what takes place.

I want to pursue the leasing kind of arrangement. I just wish to have your candid opinion. You tell me where I am wrong in my impression. Ordinary people, when they read "lease" and "buyback," say there's no free lunch. People who are perhaps a little more in the know, by virtue of that being the tenure they must address, see the best possibility in leasing with a large pool. It has be substantial. They also like to factor in foreign currency, for the margin of profit is very, very small so the sum has to be consequential in order to make it worthwhile. Those marriages are best consummated under tax haven jurisdictions, and when all is said and done, they will only pick or deal with your best assets, after having paid members of the second-most-honourable profession, that of faculties of law emanating from all over the place.

Our experience, because we did GO Transit — Tony Salerno will attest to that — is that after 15 years you're going to pay more unless you use the lease and buyback as a scheme to open another set of books so it gives you a little more time.

1630

Is this a style that you're proposing to the government? Is that the kind of last resort bazaar that you would advise the government on? Some will see it as another indication of privatization and yet it gives them one more option. Why should you have a capital expenditure of $8 million to buy a mid-sized public school when someone can lease it for you, coming out of your operating capital, and you don't feel the pain until you get into your fourth term of office?

Mr Gourley: I think I was with you until "last resort" and "fourth term of office."

Mr Pouliot: Well, I've been here for 12 years, and one term with these people. You can't say this; I appreciate that. Just basically, what is your caution vis-à-vis lease and buyback?

Mr Gourley: There are a couple of things I should be saying. Not only is there no free lunch, but the sale and leaseback of any facility is a decision that has to be made knowing the full, long-term consequences of it, and who is actually taking the risk. One of the advantages for individuals leasing the capital, as it were, is that a portion of that capital may be written off by the leasing company and therefore the taxpayer, through tax expenditures, is helping to support that lower lease cost. If it's being done in a foreign currency and foreign markets and there's a foreign currency risk exposure, certainly I would be one who would be cautioning on at least making sure that everyone was clear on the level of risk that was being taken, since foreign currency risk has been known in Canadian public finance to be a major source of aggravation for those who followed.

I think also the Public Sector Accounting and Auditing Board accounting rules that we are now obliged to follow make it very clear that if the leasing arrangement is simply an alternative way of financing capital, then it has to be recognized up front as such. If, on the other hand, there is a pure transfer of risk and responsibility, then I think we have a different arrangement and a different possibility. With those dimensions, I think once the government sees those as choices, it will be able to make a decision.

Mr Pouliot: Thank you kindly. I look at your forecast, and it's not easy for anyone vis-à-vis the GDP, and yet when I look at the inflation performance and the futures market I have some difficulties. Sometimes I'm under the impression that if you have both core and non-core in your weighing measures — for instance, the recent round that gives it to 1.4% does not factor in, under liquor and tobacco, the most recent announcement, that of last week or 10 days ago. The price of oil, both the London and the New York crude, you have to project those into the future. It doesn't seem that it's going to go away.

I have some difficulties when I look at your more than cautiously optimistic performance on the gross domestic product and yet a very conservative estimate in terms of inflation from 1996 reality to projection up to the year 2000. I think you're at the consistent 1.7%. From past performances, my understanding has been that if you have, in French we say une surchauffe, a heated economy, it's an invitation for inflation to show more than the 1.7%. How do you reconcile being quite rosy on your projection for growth and yet so conservative on low inflation?

Mr Dorey: I think our projection for inflation is slightly lower than most private sector forecasters, but virtually everyone at this point is expecting less than 2% inflation.

A principal factor there is the size of the unused capacity in the economy at this point. We have gone through, as you know, five years of very sluggish growth and there's a lot of unused capacity and that should prevent inflation. Even if we have 4% growth, it shouldn't bring the unemployment rate down enough to create any significant inflation pressure.

Mr Pouliot: I see. Nowhere — maybe I've missed it in your analysis, in your forecasting — do you factor in what I think is a very low rate of savings at present among Ontarians. We know that personal and small business bankruptcies are almost at a record level. We also know that the relationship between household debt and household income does not leave room for a lot of flexibility. When I look at your forecast of consumer purchase, I think you've reflected that caution, and that is welcome.

Having said this, if we're to keep growing, how much more room do you see in the export market? The so-called recovery now is mainly driven by the export market. You're forecasting quite a bit of growth in your export market, if the slack is not going to be picked by consumer performance for those reasons, plus add to it the demographics. How do you see your export market? It's your only line of defence, is it not?

Mr Dorey: I think the general expectation again, among private forecasters and in our case, is that the export performance will continue to improve. We have an extremely competitive economy at this point; partly it's the exchange rate, partly it's because our wage settlements are relatively low and the costs of doing business here are very attractive. Our view is that the domestic sector will come back, that we will see stronger growth in the domestic sector than we've seen in the last several years. For the reasons you've stated, it won't come back to the kinds of growth rates we saw in the 1980s, but certainly it will come back from the levels we've seen in the last few years. You'll see more balanced growth over the next three or four years than you've seen in the last three or four.

Mr Pouliot: So you don't feel that the excesses of the 1980s will repeat themselves. The yuppies are 10 years older; they must save for retirement. You're right.

The provincial government takes in what, $46 billion or $47 billion, the money that comes in in a year, grosso modo, approximately? The PIT, the provincial income tax, what is it, about $15.5 billion?

Mr Dorey: Yes.

Mr Pouliot: So a little less than one third of the total take is from the PIT, right?

Mr Dorey: Right.

Mr Pouliot: You've had the first instalment of the tax cut now in place since July, and I understand you can only do it in July and January. By this time, you should have a fairly exact figure for the cost of the first instalment. They will also honour the commitment of the

second instalment of roughly the equivalent starting in January. So by January you will have had six months of the first instalment of the tax cut to the PIT, and starting in January you have the second instalment, which will represent roughly 15% of the commitment. Once you factor these in — six months at seven-and-some-odd per cent, and then you'll be into your seventh month and you will start the first month of the second seven-and-so-on per cent — what will be the cost per year in terms of revenue? How much is the PIT cost?

Mr Dorey: In the budget, we showed that the cost of the PIT cut would be about $4.55 billion on a fully annualized basis in 1996. If we were to annualize half of it — I'm just going to take half of that number, although it phases in over time. You were looking for grosso modo, and that's in the ballpark of grosso modo at any rate. I'm sure I can get a more precise answer on the actual 15%-plus reduction we made, but in the budget it was clearly costed at $4.555 billion.

The Chair: Thank you very much. We'll move on to the government for a 10-minute round.

1640

Mr Douglas B. Ford (Etobicoke-Humber): Ontario's budget plan, on page 14 — I just read that — is very optimistic. According to the figures your ministry has announced, the government overachieved its deficit target in 1995-96 by almost $600 million.

Last week before the standing committee, the minister said that with the improving economic performance he fully expects that the government will improve on the 1996-97 deficit target of $8.2 billion. Given the positive economic outlook over the next few years, will the government be in a positive position to balance the budget in the year 2000-01, or will it achieve that before that time?

Mr Gourley: I believe the government will. I also would cite the Dominion Bond Rating Service, which looked at the figures the government produced and said that the government's forecasts — prudent, cautious and so on — would enable it to achieve its deficit reduction, and went on to say that if the government had been wrong in its economic forecast to the tune of 1% for each year, 1% overestimating the growth in the economy, that would result in a $2.8-billion deficit at the end of the period. I think it's obvious that if the opposite is true there would be a $2.8-billion gain.

From our experience so far and using the prudent projection approach that we have, we hope to be able to be back at this table every year — presumably we'll be here twice a year or so — saying that our cautious projections were in fact too cautious and that the economy has outperformed.

I think everyone is looking at forecasting as an art as opposed to a science, and we are simply trying to stay on the side of caution as we go through. On that basis, the plan is still predicated on very cautious projections.

I showed the range we're looking for over the next three years, and we are well below the average of the consensus of forecasters. I would love to be able to stay up at the high end of the forecasters and say, for example, that this year, 1996, is going to be 2.6%, but that's not the basis on which we are going to do our planning or make decisions. They are going to be based on the prudent projections and if additional moneys come in they will do so.

I also pointed out in my remarks that the government has built in this $650-million reserve, and that's sufficient to accommodate in any one year a reduction in economic growth of 1.5%. In that one year, $650 million would be sufficient and still have the government meet its target for that one year. It's also true that if we were to lose 7% of our retail sales tax revenue in one year, for whatever reason, that $650 million would still enable the government to meet its target in that year, and the same is true if it were to be the case of a 12% reduction in corporate income tax revenue; corporate income tax revenue tends to be much more volatile than retail sales tax. I think those magnitudes show how much caution and how much protection is built into meeting our targets.

I should also mention that our interest rate assumptions tend to be anywhere from 75 to 100 basis points higher. We are projecting higher interest rates and building our fiscal plan on higher interest rate assumptions than is the case in the private sector forecasters. We've got additional caution built in there, and therefore I feel confident that we will be able to meet those targets.

Mr Ford: They look very positive rather than optimistic, then.

Mr Wayne Wettlaufer (Kitchener): Mr Pouliot of the NDP has expressed some concern about the possibilities of export development shrinking and the possibility that our numbers wouldn't be as great as what we have projected. We've heard a number of economists in the last year, including Patti Croft, chief economist with Canada Trust, indicate that the tax cuts will increase demand on the part of the consumer. I think many of us are willing to accept that. I wonder if you could give us an up-to-date number on who will be the chief beneficiary of the Ontario tax cuts.

Mr Gourley: I certainly think "every taxpayer" has got to be the beginning of that answer. Every taxpayer in Ontario will see either a 17% reduction in tax or a 40% reduction in Ontario tax when the tax reduction plan is fully implemented. That reduction in strict personal income tax terms would mean about $4.5 billion, so there will be $4.5 billion worth of benefits spread across all taxpayers in Ontario, and I think that speaks well for the economy. Whether the individual actually spends the money, saves the money or invests the money, I think it's all going to have a positive impact on the Ontario economy.

Mr Wettlaufer: In terms of actual percentage of dollars being returned, is it not true that the chief beneficiary will be the lower-middle and lower class of income?

Mr Gourley: The percentage reductions that I mentioned were, obviously, at the higher-income level the 17% reduction, versus the 40% reduction at the lower- and modest-income levels, so the majority of the benefits actually fall to middle- and lower-income people in Ontario.

Mr Ted Arnott (Wellington): Thank you very much, Mr Gourley, for your presentation. It's been very interesting for me and I appreciate it.

I want to ask you about interest rates. I was just looking at the paper today and the prime rate in Canada is about 4.75%. In the States it's 8.25%, a difference of about 350 basis points. Looking at the public debt interest costs for the province of Ontario, thinking in terms of the significant reduction in interest rates that we've experienced in the last couple of years — in the fiscal plan we were looking at $8.9 billion in interest costs, but the actual is $8.2 billion, a reduction of $714 million. I remember reading somewhere that a lot of our outstanding debt in the province of Ontario is longer-term debt and that's why we're not really seeing more interest rate relief. Is that correct?

Mr Gourley: That's correct. I could ask Mr Salerno to talk about that, but you're quite correct that the vast majority of our debt is in fact in long-term debt rather than short-term debt —

Mr Arnott: So when do we expect to see a little more relief in terms of the public debt interest costs?

Mr Tony Salerno: I think we're seeing some of the benefits of the lower interest rates already. As you saw last year —

Mr Arnott: In our economy we are, sure.

Mr Salerno: In the economy, yes, and for that we turn to Mr Dorey. But in terms of the impact on the province's public debt interest costs, we certainly saw some of the benefits last year and that's continuing this year. However, you'll recall that interest rates after the budget went up for a little period of time; the big decrease since the budget has really occurred in the third quarter, actually since the beginning of September. I think it's fair to say that to the extent that we have floating debt, and that currently is about 10% of the total, as we renew that, as we roll it over, and it tends to roll over every three to six months, we will be enjoying the benefits of the lower interest rates. As well, as you saw in one of the tables Mr Gourley displayed, we have done some issues over the last three months and those certainly will reflect in lower PDI as we make those payments.

The Chair: Thank you very much. We'll move to the opposition.

Mr Monte Kwinter (Wilson Heights): I'd like to stay on the same topic of the interest rates. When we take a look at the 1995-96 fiscal performance, you see an actual revenue that's up $1.573 billion, you see a public debt interest that's down by $714 million. When you consider that had the revenue not grown to the point that it did in excess of your estimate, and had the interest rate not declined, you would have been in pretty bad shape overall against your fiscal plan. You would have had a situation where your deficit would have actually gone up higher than your projections.

1650

My concern is that, notwithstanding that you have factored into the interest rate, I think you said, 75 to 100 basis points and you've got projections for 1996-97 that are pretty modest in comparison to what you had last year, and I assume that reflects the tax rebate, what happens if the spending goes up at the same level, in program spending and as part of the restructuring, as it did in the 1995-96 period?

Everything worked for you this time. You got a break in the interest, you got a break in the revenue. What happens if that reverses itself? What happens if the interest rates go up and your revenue goes down, as you're anticipating?

Mr Gourley: The first comment there that I should make is: an overall level of caution. We've got caution built into our assumptions, and I've pointed that out earlier. We have the reserve, and I commented about that. But that reserve is there to deal with unforeseen economic circumstances, and that might include, I'll say, a downturn in the economy that therefore causes spending to increase, as it had in the past. So, for example, social assistance recipients, the number of people dependent on social assistance, may go up. To the extent of $650 million, we would still be able to meet our deficit targets.

Obviously, if we were to see a repeat of the worst downturn in the economy in 40 years, which occurred in the 1990-91 period, we would have difficulty meeting the targets we've set out for ourselves. But generally speaking, we have, I'll say, cautious forecast compounded by prudent projections on top of reserves, as well as interest rate pessimism, if you like, that leads us to say these are completely achievable and realistic targets. They are achievable through either the reserve or other means in terms of dealing with them.

But primarily, the caution is there and the reserve is there to deal with what I would consider in any one year a very significant caution of $650 million on a $40-to-$50-billion base.

Mr Phillips: Switching to the job area, the economists I talk to say that job growth is related to GDP; they say a combination of productivity improvement and job growth equals GDP. I don't know whether that's how you people look at it or not, but I'm looking at what a reasonable expectation around job growth versus the economy is. The economists I talk to tell me that you can't grow jobs faster than economic growth and if you grow at the same rate, there's no productivity improvement. I'm just trying to get a feeling for what we regard as the number one issue, and that is jobs. What's reasonable to expect in terms of job growth? I gather you're looking at 3% real growth in 1998. What's the relationship there?

Mr Gourley: On the slides that I presented on page 9, we tried to, I'll say, bound expectations in a prudent and cautious way by suggesting that if our employment grows as it is projected to grow, by 1.6% in 1996 and then 2% to 3% in 1997, followed by a further 2% to 3% in 1998, this would produce between 200,000 and 300,000 net new jobs in that period. We think that's a reasonable and cautious projection in terms of a rule of thumb.

Mr Phillips: I'm sorry, Michael, that's for the two years 1997 and 1998, and if I add the two together, it's 200,000 to 300,000?

Mr Gourley: Yes, that's right. Just to illustrate, in the early 1980s Ontario's economy grew, from 1984 to 1988, at a rate such that it created 170,000 to 175,000 new jobs a year for each of those five years in that period. This sort of level of job creation occurred in the 1980s. The projections that we have here I think are reasonably prudent and cautious, and we've introduced this concept

of a range to try and help people understand the variability. Your point about productivity —

Mr Phillips: Can job growth occur faster than GDP?

Mr Gourley: I'll just make the point, if I could, before asking Mr Dorey to comment on that, that the issue of capacity in the economy is a significant factor. Steve, perhaps you could comment on job growth.

Mr Dorey: There certainly have been instances of job growth being faster than output growth, but that's not sustainable over any reasonable period when an economy is becoming more productive. I think that relationship is correct. I think trend productivity is probably around 1%. That's certainly the consensus of private forecasters. That's a reasonable relationship.

The GDP numbers that we've produced, because they're the basis of fiscal planning, are intentionally very cautious. If you were, for example, to use consensus numbers, you would have a higher number and the corresponding job growth would probably be higher. Probably a reasonable relationship over a reasonable period of time is about a 1% difference between the two.

Mr Gourley: If I could just add, I think that's a point: We have shifted. As long as we are producing economic projections that are used to construct a fiscal plan, that's different from forecasting what the economy is actually going to do. That's a very significant difference from the past, in which I was involved as ADM, office of the budget and finance and so on, where we were looking more to project what the budget would actually do. We are looking for what we should be using as the basis for building a fiscal plan, and that's quite a different story from saying: "This is where inflation is going to go. This is where interest rates are going to go."

Mr Phillips: I'm just thinking that if economic growth is 3% over the next five years or four years, and if there is a 1% spread between job growth and economic growth, we're not going to come close on the job numbers.

Mr Gourley: A net 2% growth would generate 200,000 and 3% over those two periods.

Mr Phillips: But I'm saying that 200,000 growth is about 110,000 jobs. You've got to do 145,000 jobs a year to hit the numbers, so we're going to shortfall by a couple of hundred thousand jobs. That's all I'm saying, if that is the case.

Mr Gourley: If you start with 127,000 and then you add the 300,000 over each of the periods, you get to beyond the 725,000.

Mr Phillips: I'm just saying, if it is true, Michael, that there is a 1% difference between job growth and economic growth, and 3% economic growth is, according DBRS, optimistic to sustain over this period of time — they think there's a high risk of that not happening — we're not going to come close in the jobs.

Mr Gourley: But if we used DRI or some other forecaster who tends to be on the high end of our range, we would have higher forecasts than DBRS.

Mr Phillips: But what is reasonable for us to think about real growth over the next four years?

Mr Gourley: To be quite frank, I think everybody has to make a judgement as to whether indicators such as consumer confidence increasing by 19% are actually going to be reflected in people's behaviour. If it is reflected in people's behaviour in terms of purchasing and investing and making long-term commitments, then we will see that job creation there with no difficulty at all. If it's not, if it's just, "I feel better, but I'm not spending or investing," then I think — so, to that extent, I think each person is able to make their own projection. Obviously these various private sector forecasts spend a lot more time than any one individual, but you are certainly entitled to your view as to where you think the economy is going and whether this is reasonable.

Mr Phillips: I gather 3% is reasonable; I don't know.

The Chair: Thank you very much. We'll move on. Mr Pouliot please.

Mr Pouliot: I appreciate your contribution and your ongoing loyalty to the government of the day. That's well taken. Personally, I have a great deal of difficulty, if my credit card or credit cards reach saturation, constantly asking that the borrowing limit be extended. I for one do not subscribe to the theory that the money will filter through nearly to the same extent as if it was directly applied against the debt. I think the psychological impact perhaps is just as important, and I will give you this, as the actual dollars filtering through. No question, you don't get 100% return because people are diverse and they have the liberty, the facility, the latitude, to do whatever they wish. But if you take the money and you place it against the debt, then it's so much against it.

1700

One of the problems you have with the debt, and maybe Mr Salerno can help us, is that government debts are long term, which allows for better planning, and they're also non-callable. You can't call the debt back, right? You have to wait till maturity.

Mr Salerno: That's correct. There would be no benefit to cashing it. It wouldn't go on the open market.

Mr Pouliot: Even if you were to call the debt back, you would have to pay the applicable premium, depending on market conditions.

Mr Salerno: That's correct.

Mr Pouliot: It happened recently — and I wish to know the date and what issue. Incidentally, it seems that Ontarians can no longer shoulder their debts, that we have to be at the mercy of others to a larger and larger extent, friends maybe, but others. My experience is that when you are at the mercy of others, in the worst case, in a catastrophic scenario, you could become almost dependent. In a best-case scenario, you should at least be a little nervous, for you don't control the emotions and you're also competing with others that are tapping the marketplace.

One of the last issues, would I be right in assuming that the Minister of Finance, the Treasurer, borrowed more than what was needed, like a European issue, borrowed almost $3 billion more?

Mr Gourley: On a particular issue?

Mr Pouliot: I mean on overall issues.

Mr Gourley: No, I don't think that would be a correct statement. I think you could say that in the past, and depending on conditions in the future, we have borrowed when market conditions have dictated that it's advantageous to the province to borrow moneys. Last year, I believe that we — and the expression we used was "pre-

borrowed" — borrowed in advance of the actual fiscal year in which it was required. But that was because the rates were advantageous at the time, and that results in long-term savings.

We will continue to borrow at a time which we think is to the province's advantage rather than waiting until we actually are forced to borrow the moneys. But we have liquid reserves. They have been as high as $12 billion, and we're proposing to take them down to $6 billion or $7 billion, I've forgotten the exact number, to as low as $5 billion, and that will mean that we will be borrowing, if I could put it this way, on a more timely basis than we have in the recent past when conditions were less certain.

Mr Pouliot: But if you are able to forecast this way — I mean, listening to what you've said, you go beyond the cautiously optimistic. If I were to meet you tomorrow and say, "How are you, sir?" you probably would tell me, "Best one yet." So, I'm going to go home tonight and I'm going to borrow money and I'm going to enter that NASDAQ market, because I'm sure you can justify the high price earning ratio and the debt equity ratio. We're going to have a great year next year on the New York market, aren't we?

Mr Gourley: I'll tell you, I did not personally benefit from the bull market we've seen and the extent to which it has taken place, but I also must tell you that when you meet me tomorrow it's my mother who must take the credit for my cautiously optimistic attitude; it's a genetic encoding.

Mr Pouliot: Yes, and you have no merit. Sir, a person your age, with respect, must have lived through a bear market. You see, there are people like you, they're always bullish and bullish and bullish. I mean, the sky's the limit. There are people like me, who tend to be a little bearish, and it makes them a little bit — because I want to save the money for when the big revolution comes; I can divide it evenly among all the workers, but that's another story.

I want to draw your attention to what one of my friends and colleagues, Mr Phillips, said about the bond rating agency, Dominion. Those people don't go into the public domain easily. They did not downgrade our rating because they know of the commitment, the zeal, to chop, chop, chop. We have 14 chopping days till Christmas, and the government strikes with a vengeance; that's okay. Well, it's not okay, but it's their philosophy. But yet the Dominion Bond Rating Service says if you lose one percentage point on your forecast, if you shave one percentage point off, not a hell of a lot, it means you would have to borrow another $2.8 billion. They go on to say that government is most vulnerable by virtue of the albatross, the tax cut: 30% on the PIT month after month as it takes place makes them quite prone to being vulnerable.

How would you reconcile that? On the one hand you say, "The bond rating agency says yes," but there again, are you going to be positive on me and exceed and surpass all expectations and say, "Trust me till Monday and you'll see it go this way," or are you going to be more realistic and say, "Those are professional people; cold, true statistics," and we could be on the hook for another $2.8 billion?

Mr Gourley: I'd like to try and use two statistics to illustrate the point and perhaps respond to both your and Mr Phillips's concern about what is the future and what it holds for us.

The document that we presented clearly shows that throughout the 1970s, Ontario's economy was able to average an annual growth rate of 4%; throughout the 1980s, 3.6%. Obviously in the early 1990s we had much less. So whether 3% is the right number or 4% is the number, you don't have to be much of an optimist; you simply have to have lived through the 1970s or 1980s to see that 3.6% or 4.6% is quite achievable for Ontario's economy.

I'd ask Mr Salerno to talk about the premium or the so-called spreads that we are now not paying as a result of the kind of fiscal plan we have here. Mr Schroeder of the Dominion Bond Rating Service, with whom we have spent many hours going over our plans in detail, I think understands very well what our public finance situation is. Tony, could you talk a bit about the gain we've seen as a result of reducing spreads?

Mr Salerno: In fact, the Dominion Bond Rating Service last spring, following the budget, did move marginally on the province's rating. It raised the rating on our short-term paper by one notch.

More importantly, it's the reaction of the market to what's happening in Ontario, the confidence that the market is demonstrating in Ontario's economy and in Ontario's fiscal situation. The spreads — that is, the difference between what we pay, the premium over the government of Canada, what Ontario pays now over the government of Canada borrowing, is about the lowest it's ever been. I believe it's even lower than Ontario enjoyed when we were AAA. So the market is speaking volumes.

I'm not suggesting that the credit is all to Ontario's rosy picture. It's a Canada story, because we do borrow, and not just in the Canadian market but internationally, as you know. The market consistently is expressing a great deal of confidence simply by buying our paper and reducing the costs of our borrowing.

Mr Pouliot: Thank you very kindly. On that, a consensus of economists in the United States says that the first-quarter growth projection is about three quarters of what yours is, about 75 for every 100. They say we'll only grow by three quarters of what you say. The presidential and House elections are over in the States. Mr Greenspan has been salivating, has been waiting for the right moment to issue some cautious — it seems to me that we're so privileged, that all the stars are aligned in perfect fashion. We have a low interest rate. The economy's going fast enough but not too fast. And everything is okay. I went to the Ontario savings office the other day and I see 2.75% on a one-year note and 4.75% on a personal GIC of five years.

1710

When you did oversubscribe, by the way, in June 1995, the rate on a personal five-year GIC was 8%. Knowing what you know now, how much money would you have saved when you over-borrowed, when you over-capacitated on your European issue? If you had waited another seven or eight months, you would have saved that much more. When can I expect the charters to

come knocking on my door and to say, "Gilles, come and borrow money from us and we will pay you"? Don't you feel that in the next year or two there will be a rise in short-term rates? And whoever moves first, that will be an invitation to hit the spread, because one has to follow the other, and we're the one who has to respond to Greenspan. That's inevitable; otherwise the exports will benefit for a short time, but what we import, what we buy, will cost us more. One third of everything we consume comes from outside. It would be too easy.

My question is, what happens when the interest rates start rising?

The Chair: I believe there's a question in there somewhere.

Mr Gourley: The comment I would like to make on the issue is that one of the things we have done this year is dramatically reduce our level of liquid reserves. So it means we will not be borrowing this year about $6 billion that we would otherwise have borrowed to maintain our level of liquid reserves. You might well have asked me, "Why are you borrowing to maintain such a high level of liquid reserves?" In our view, it can be lowered to the $5 billion. So there are savings to be achieved on that alone by not borrowing to maintain our level of liquid reserves at a level that it was in the recent past.

I'm afraid the answer to your question about how much we would have saved if we had borrowed at the lowest point is a lot of money. None of us, certainly anyone working at the financing authority, would actually be working there today if they were able to say when that magic point was that you were looking for us to find, yet I have every confidence in the staff of the financing authority.

Mr Pouliot: You should keep that in mind in your future forecasts.

Mr Gourley: You should keep in mind that the future forecast is a collection of individuals looking at data, not a crystal ball, trying to understand where the economy is going.

The Chair: Thank you. We move to the government side.

Ms Isabel Bassett (St Andrew-St Patrick): Thanks, gentlemen, for coming out today. To pick up on what you were saying about the economy, Mr Gourley, you say, or the minister points out in the statement, that you expect jobs will accelerate. To make a very direct question, can you tell us, in addition to some of the things you've already touched on, what specifically we are doing as a government to increase the number of jobs?

Mr Gourley: I think if we look back to the measures introduced in the budget, there are several. Obviously the personal income tax reduction itself and the commitment to future reductions is, I believe, going to have an influence on people's behaviour and on their confidence about making investments.

If we look specifically at such measures as the reduction in the employer health tax and the impact that's had on small business, I don't believe there's any doubt that there's a consensus in our economy that a reduction in payroll taxes is a good thing for job creation. The payroll taxes are job-killing, if you like; they do affect employment. They particularly affect small business. The government's reduction of the employer health tax is one effort there. The reduction in workers' compensation premiums, the reduction in and the freezing of hydro rates, all these are good things for business.

I won't get into the issues of elimination of red tape, but generally speaking, to be quite frank, the fact that the government is meeting its plan has a very major effect on boosting the confidence of business. So we're not coming into this forum and saying, "We were optimistic and therefore we're going to have to cut back" or "We were too optimistic and therefore we're going to have to change our plans." The fact that we have a plan that is credible and that is working has a major impact, I believe, on the confidence levels in the economy, and therefore on the behaviour of both business and individual consumers and taxpayers.

Mr Tim Hudak (Niagara South): Thank you, Deputy Minister, for your presentation today. I have a question concerning how Ontario's economic performance has compared to other provinces and to other jurisdictions in terms of real GDP, which would be a good comparator, or anything else you can come up with. Throughout the early 1990s, compared to the Canadian growth rate and other industrialized nations, I understand that Ontario's performance was poor, almost always worse than those averages.

Since this government took office in 1995, have we seen any changes in that trend, and what are the expectations on where we're going in the future?

Mr Gourley: Looking forward, certainly all the private sector forecasters see Ontario's economy outpacing the growth rates of all G-7 countries, obviously including Canada in that respect, and we are leading in at least those forecast projections the performance that is seen over the next four to five years. So Ontario is facing a very optimistic outlook vis-à-vis the G-7, vis-à-vis Canada and other provinces. I don't know if Mr Dorey would care to add any comments to that.

Mr Dorey: Just in terms of the numbers, for 1995 the Canadian economy grew 2.3% and Ontario grew 3.2%. For 1996 we're projecting 2.3% growth for the Ontario economy, which is probably cautious. The national figure is 1.4% or 1.5%. For the 1997-2000 period, among private forecasters, the expectation is that Ontario will grow about 3.5% a year compared to about 3% for Canada. So from 1995 to 2000, the general consensus is that Ontario will outperform the rest of the country.

Mr Hudak: If I could follow up on that and I guess on Ms Bassett's questions too, what can account for that, this sudden change where Ontario's now above the bar compared to below the bar in the early 1990s? What is it about Ontario's fiscal policy that can account for this change? What does this have to do with tax rates? What does this have to do with the commitment to reducing the deficit?

Mr Gourley: My view at least is that the government's plan, the achievement of its plan, the over-achievement of its plan, the commitment in respect of no tax increases, the commitment in respect of reducing the size of government, of creating opportunity for the private sector to grow and to invest, the encouragement

to make investment in Ontario and the encouragement the government is providing in terms of easier access to capital will all mean that Ontario's economy will be outperforming other jurisdictions as we make, I'll say, greater certainty in Ontario's economy. In terms of the conditions that people will be operating in, we will be able to offer that as a plus, as an advantage over other jurisdictions.

Steve, I don't know if you want make any comment about capacity or the typical, I would say, fundamentals in addition to workforce and other locational advantages that Ontario has.

Mr Dorey: Just that the trade performance of Ontario, particularly over the last couple of years, has been quite striking compared to the rest of the country. As you know, the Ontario manufacturing sector went through a fairly wrenching adjustment to free trade and is now reaping the benefits of that, and we see that in a strong manufacturing sector.

Mr E.J. Douglas Rollins (Quinte): Thanks, gentlemen, for coming. I think one of the things that you look at on these forecasts and the economic turnout for 1996 and what really the current outlook is is particularly on the housing and in the construction department. In both of those, we have outgrown our numbers quite substantially, and it's one of the more positive signs.

I think those kinds of turnarounds in that department allow the private sector, because a lot of private sectors build individual houses and things of that nature. Do you see that kind of growth continuing in the housing market? We certainly have outjumped our numbers this year. Will it continue down the road, in terms of what you're forecasting?

1720

Mr Gourley: I think it's fair to say in the case of the Toronto market that the statistic I quoted earlier about a 78% growth in resales is not a sustainable rate of growth. Obviously, from a relatively low base of activity, it is a wonderful percentage growth rate, but it's not sustainable.

Continued growth in the housing market as people see investment opportunities, as people see affordability, mortgage rates at the lowest they've been in a decade — the affordability index, if you like, of owning a home versus renting is just there, so all the conditions are favourable to people making those investments. I certainly see, with the combination of interest rates, tax reductions and just generally favourable conditions that the government is fostering, a greater investment by individuals in homes, whether they be new or resale. I see that as a continuing trend, not at the current rates, but continuing growth certainly in housing, in the residential area.

Mr Dorey: In terms of gain, private sector forecasts in general are from the 42,000 or so housing starts this year to about 52,000 next year and 60,000 starts in 1998. The expectation is for pretty steady growth in that.

The other thing that those statistics don't quite capture is the massive amount of renovation that's going on, whether it's ripping the guts out of old office towers in Toronto and turning those into housing or people simply fixing up their houses. The residential renovation sector is particularly strong, and interest rates clearly contribute to that.

The Chair: Thank you very much. We'll start on the third leg of our question round.

Mr Kwinter: Just to make a comment, it really concerns me when I hear the government side taking a look at the results happening in 1996 and somehow thinking it has anything to do with what they have done.

There's a time lag in all these investments. If you just take a look at page 10 and see the massive investment in machinery and equipment that took place in 1994-95, that was as a result of the major restructuring that had to take place. When the recession hit Ontario was the hardest hit, not because it was poorly managed but because it had the most vulnerable industries; that has totally been restructured and we are now seeing the benefits of it.

There has to be a reality check. The things this government is doing, many of which are positive — you won't see the results for another while yet. I just think it's important that that be put in its proper context.

One of the other things I'd like to really get a feeling for is in that same general area. We often hear about the net new jobs created and the projection that if everything goes right we will hit the 725,000 target. There doesn't seem to be a lot of attention being paid to not necessarily the net new jobs but the net new employment. There's a whole range where the workforce is growing and we have this anomaly of net new jobs being created but higher unemployment. That's on one side; I'd like to get a comment on that.

The other is on the expenditure, particularly on high-ticket items like health care. The government goes to great pains to say, "We are keeping our health care spending at" — what is it?

Mr Ford: It's $17.4 billion

Mr Kwinter: That's right, $17.4 billion, but they're saying it's now $17.7 billion. They're saying $17.7 billion, but what is happening is that notwithstanding that the health care dollars may be the same, the demographics of our client base or our patient base are changing and the size of that patient base is changing. What you're really getting is less expenditure per capita, and not only that, but a skew in an aging population where just by keeping the dollar level at the same level you're actually falling behind because you're not providing the service and you're not providing the same per capita expenditure.

Has that been factored in so we don't get a situation like Ralph Klein where he suddenly comes to the realization, that someone is going to point this out and, going into an election, we're going to have to play catch-up, with what that does to all the figures?

Mr Gourley: I have two or three comments, and I'd like to ask Steve to add comments about the growth in employment overall and the labour force.

I would like to comment on your first remark about investment and take your point in the graphic we've shown here that the growth in investment in 1994 and 1995 was very high in rate terms. The key, at least for our projection, is that that relatively steady and in our case prudent projection is for continued investment. I think that's important.

I agree that a lot of the measures the government has put in place will take time to bear fruit in terms of

benefits, but they will bear fruit, and they will bear fruit in part because of the choice of measures such as personal income tax that the government has chosen to use, but also the consistency of a context, and you mentioned that. A context that favours investment, that provides business with a known environment, a consistent environment over a period of time will, I believe, lead to continued growth and real investment in machinery and equipment and in non-residential construction, as illustrated on page 10.

The higher unemployment and the interplay between the size of the labour force and individuals seeing that there are more jobs being created and therefore presumably more opportunities for them and therefore presenting themselves into the job market, saying, "I would like to be able to find a job as well," means that the government will have to deal with this somewhat conflicting statistic, where more people enter the labour force than jobs have been created, and therefore you see that rise.

Steve, I don't know if you want to talk about that, and then we'll come back to the comment about demographics and health care.

Mr Dorey: On the investment side, the one number that is striking in 1996 is the performance of the non-residential construction sector. That sector has performed very badly over the last five years and is now up about 10% in Ontario versus virtually nothing in the rest of the country. For whatever reason, whether it's low interest rates or the government's policies or whatever, people are building factories and office buildings much more now than they have been in the past few years.

On the job side, as you may have noted, the job projection we now have, with two months' data to go for the year, is that the job growth number will come in slightly higher, 1.6%, versus the 1.5% job growth we were expecting in the spring, and yet we're showing an unemployment rate that's somewhat higher. That's your point, that unemployment is rising while jobs are rising.

The reason of course is more people entering the labour force. We see the labour force growth about 0.3% faster than we had expected in the spring. We take that as a positive sign, that people are coming back to the labour force, because they do think there are opportunities to get jobs. While in the near term that's reflected in higher unemployment and a higher unemployment rate, over time, clearly, if people are looking for work that's a good sign.

Mr Gourley: Coming back to the issue of health care and demographics, in a shrinking government expenditure pie, if you like, if you're maintaining in absolute terms the level of spending for health, whether it be $17.4 billion or $17.7 billion or whatever, clearly a larger portion of the government resource in percentage terms will be going to health care as the total pie shrinks with the absolute amount staying the same.

I don't think it's possible, in a fiscal planning sense, to reflect the shifts which over the long term are not settled but on a year-to-year basis are settled as demographic changes in the population change the demands on the health care system. We all know, perhaps only too well, about the aging population and what that means in our own personal sense for health care needs and what that will mean for the future needs of the health care system in Ontario.

What will have to happen, by deduction, if you like, and by policy is that we will have to spend the money we are spending differently, providing services to people in their own homes and ensuring that the rather expensive facilities we have, such as acute care hospitals, are used as efficiently and effectively as possible so that people can get the services they need on the one hand, but so that more efficient and effective hospitals can be constructed so that the cost of those services is lower than it has been in the past.

There's no doubt that there's going to have to be more money dedicated to home care services or health care in the community than has been the case in the past as we move away from institutional care to personal care or individual care in the community.

But in terms of our fiscal planning, we are working on this commitment of $17.4 billion and maintaining it, as was mentioned, at $17.7 billion this year.

1730

Mr Phillips: The size of the civil service: As I recall it, you were predicting 11,000 fewer in this fiscal year, and we're about four months from the end of it. What is your expectation in terms of the size of the civil service at the end of this fiscal year?

Mr Gourley: I'm sorry, I don't have that data at hand. I know Management Board does. Unless we have the most recent information, that's a statistic that I don't tend to have readily at hand; it tends to be Minister Johnson or his deputy who would have that. I don't have it. I could get it for you.

Mr Phillips: That's fine. If you could send it to the committee I would appreciate it.

Ms Evans: I can give you a little bit of information. I can't give you the end-of-the-year number, but between June 1995 and September 1996, the OPS was decreased by 11% or 9,446 full-time equivalent positions. That's the status that's been achieved as of September 1996. The size has decreased.

Mr Phillips: From what to what, the total?

Ms Evans: The changed number is 9,446 staff, and I believe that's reduced from 84,981 full-time equivalent positions.

Mr Phillips: As of March 31?

Ms Evans: No, that would be as of September 1996.

Mr Gourley: It's the base we started with. We should be clear on the base and the date of the base, and then —

Mr Phillips: Isn't the most useful one, I seem to think, March to March to March? What is the most useful number?

Ms Evans: Normally, I guess we use the end of the fiscal year. These numbers were used to show what's happened since this government took office, so it's from June 1995 to — the latest is September 1996.

Mr Phillips: I think it would be useful to have it from the time the government took office till now and what you project for year-end.

The Chair: Thank you very much. We'll move to the NDP.

Mr Tony Martin (Sault Ste Marie): I would like to follow a somewhat similar track to Mr Kwinter in my

questioning. I have some concern about the numbers, more in what they don't say than in what they do say, particularly about the impact all this has on the communities we all are so concerned about in Ontario; the numbers that aren't in the report you presented that are obviously out there and that people are concerned about and talking about and trying to get some answers to.

The picture you present us here is one of optimism and sun. The picture I get when I go back to my community and look at the numbers we're generating out there and when I talk to people is in rather stark contrast. I was talking to somebody the other day and they said they've never seen as much poverty in this city as they see today. They've never in their history in Ontario seen as many people struggling to put bread on the table, struggling to pay the rent and to stay in a decent place.

Certainly there have been statements by some pretty reputable organizations in the country and in the province about the whole question of poverty. One of those groups is the Canadian bishops; they put a statement out in October of this year that talks about poverty. There's another statement put out by the Social Planning Council of Metropolitan Toronto on child poverty. That's an indicator that I don't see reflected here. It's an indicator that I don't seen tied in to the statements you're making. There are other statements being made by folks that have been around for a while that I think have some credibility: Bankruptcies are at a record pace; the income gap swallows most of humanity.

How do the numbers you're presenting and the picture you're painting here square with the impact the economy has on the communities we all live and work in and belong to?

Mr Gourley: I don't wish, in any presentation we make or in any of the documents we present, to say we are not very clearly aware of circumstances faced by people, individuals in communities such as Cornwall or St Catharines or London, Ontario. These communities have all experienced difficulties where individuals who felt they were perhaps secure in employment see plant closures and so on. Those facts are taking place.

But by the same token, there is in Ontario, and this is across a broad base, investment in machinery and equipment, in non-residential construction and housing construction. That will mean jobs and that is meaning jobs for individuals. What we are indicating, with 127,000 jobs being created since June 1995, with low interest rates, with opportunities being created, is that there are signs of hope. But that's not to say that any one of us as individuals or as advisers to the government presents a Pollyanna-ish picture that this situation is uniform.

What I think the government is working towards is ensuring that more people are able to benefit from its policies. In fact, I know, from having advised the government on the personal income tax reduction design, the 40% reduction for the low- and modest-income individuals was clearly intended to deal with some of the issues you've described.

Mr Martin: That's all well and good if you have a job. There was a gentleman before us here a few minutes ago who suggested that unemployment was going up slightly, and he rationalized that by saying that more people are coming into the workplace looking for work. Whether they're looking for work or they're off the chart not looking for work, there are still people out there who don't have work. However you play the numbers, the reality is still the same: Numbers are up re unemployment.

We did a study in our community not so long ago. We've talked here a little about the export market. What about the domestic market being destroyed in the country by way of the downsizing in government and the spinoff effect? We did a study in our community that showed that by the time we're finished, given the budget of last year, we will have lost somewhere between 1,600 and 1,700 jobs in Sault Ste Marie. That computes to probably $50 million or $60 million out of the community annually. The reduction to the lowest-income people in our community of 22% of their income computed to $2 million a month out of the small stores and grocery stores and the retail businesses of our community, $24 million a year. The impact that's having is quite dramatic.

There was a study done in North Bay, just released last week, that indicates that in that city, by the time —

The Chair: Your question, please? Your time is running out.

Mr Martin: By the time we're finished in North Bay, they'll be short about 2,200 jobs. We're also talking about another $3 billion in cuts. We don't know where that's going to happen yet, but it's going to happen, because to meet the targets this government has set for itself we have to take another $3 billion out. That translates into jobs and money out of our communities. Have you factored in here the impact that's going to have on the domestic market? Have you gone beyond that to factor in the extraneous costs, the social upheaval?

1740

Mr Gourley: We've done our best to project the expenditures and the revenues of the government, obviously, in the terms in which you are describing it. I don't think there is anyone who doesn't understand the difficulties in the economy, whether it be restructuring due to economic forces that result from freer trade or more competition domestically. These are all factors affecting every community. We have done our best to provide the government with prudent and cautious forecasts, including the forecasts on the programs needed to support those individuals whom you are describing.

The Chair: Thank you very much. We move to the government side.

Mr Jim Brown (Scarborough West): For most of the people in my riding, one of the big things on their hit parade is jobs, and during the campaign all they talked about was jobs.

Being a former small business person, I know I could create three jobs for, say, $10,000 worth of capital, and I know too that large companies create one job for, say, $200,000 worth of capital. Small business creates maybe 80% to 90% of all new jobs. Yet I know that in spite of that the banks, of which there are only six, controlled by the Liberals in Ottawa, have been very hard on small business and have really contributed to unemployment by their harsh credit policies. Even though the interest rate

may be low, they still require collateralization of loans of maybe five or six times.

In the Report on Business this morning, "Royal Sets Profit Record." They're making a lot of money, but my constituents are worried about jobs. The banks are federally operated. What are we doing, what are you doing, about getting help to small business, helping small business access capital? I know one labour-sponsored investment fund is sitting with $800 million in treasury bills when it was supposed to be into small and medium-sized enterprises. They've misrepresented, really, the whole intent of what they were supposed to do. What are we doing about getting access to capital for small and medium-sized enterprises?

Mr Gourley: I think there were a number of initiatives in the budget that tried to focus on ensuring that the environment in which small business is operating was as conducive as possible to the creation of jobs. I'll start with the employer health tax reduction on the first $400,000 of payroll that will be phased in and the parallel reduction on the employer health tax on self-employed small business people, obviously.

The access to capital: Clearly, the government sent a signal to the banks with the extension of the surtax which can be offset by making available capital to small business and therefore is re-earnable, as it were; by making and requiring tighter investment rules in the labour-sponsored investment funds, ensuring that those funds invest their capital sooner rather than keep them, as you mentioned, in safe investments or safe instruments such as treasury bills.

The whole series of initiatives was designed to assist small business, whether it be — I mentioned previously the government's policies with respect to power rates or others. These were all intended to create an environment in which investment would be easy, in which employment would be supported. Include there the co-op student assistance we provided, encouraging the creation of cooperative student placements in small business, in fact in any business; the tax credit that's available for the creation of those positions.

Steve, I don't know if you want to talk about other conditions or other situations.

Mr Dorey: You may be aware that the Canadian Federation of Independent Business recently did a survey of its membership across the country and asked them about their expectations in terms of job creation for 1997. The results showed that 74,000 jobs were expected to be created by existing small businesses in Ontario next year, and historically we've seen that new small businesses create a number that's roughly equivalent to what's created by existing small businesses. So it does seem like the small business sector has responded to the conditions it's seeing and is stepping up its job creation.

Mr Gourley: I should also mention the film tax credit and the focusing there on new producers and new individuals; that would help. I mentioned in previous remarks the land transfer tax for new purchases, which will obviously benefit the construction industry. There are somewhere between 15 and 20 separate measures that the government has undertaken that will encourage small business to create employment and to create an environment in which small business can flourish. I didn't mention the personal income tax reduction, although I mentioned the employer health tax. I could have mentioned the personal income tax reduction, which will actually affect small business owners as well.

Mr Arnott: I want to ask you a question about the provincial debt. Most people in Wellington county are appalled that we have a $100-billion debt. They feel very strongly that the government has to live within its means, and I think, by and large, most people in Wellington county would support the government's balanced budget plan so that by the year 2000-01 we're not adding to the debt any more, we're not borrowing any more money. They'd probably support a plan to run surpluses to try and retire some of that debt.

Most provinces have balanced budgets or very close to them. Some of them even have balanced budget laws and some take it to the next step and have debt retirement laws. Without asking for your opinion on that sort of plan, I say that it would be desirable to have a balanced budget law as well as a debt retirement law.

Do you think that if the government took that step, consumer and business confidence would be enhanced somewhat? Would people have more confidence that we were dealing with our debt over the long term in a responsible way?

Mr Gourley: There's no doubt that one of the significant factors in consumer and business confidence is a government's plan overall, and whether that includes a balanced budget plan or debt retirement law I think is just a matter of the quality, I'll call it, of the plan. But where governments make plans and then aren't able to deliver on them, I think that creates an environment in which you have uncertainty about where the government is going, where taxes are going, where support programs, where assistance is going, where support for needed services is going, where infrastructure investments are needed.

The balanced budget plan itself, the five-year plan, represents a major statement, a major confidence booster for the economy for investors and for individuals. At least it's my view that that alone is sufficient to begin to set the right environment.

I certainly do hope we get to the day when our concern is about how to deal with the surplus in Ontario and what to do with that. I would look forward to that day with obvious delight, as I'm sure everybody would, because the province needs investment and it needs to know that we are not going to be facing this mountain of debt.

I did make in my remarks the point that we are still at $8.2 billion in terms of a deficit. We have a long way to go and very challenging and difficult times ahead of us which need consumers with confidence and business with confidence as to where we are going in terms of our plan, and whether the plan is going to be achieved is the most important message.

The Chair: Mr Ford, you have time for one short question.

Mr Ford: What effect does the underground economy have on the Ontario economy?

Mr Gourley: Most people who talk about the underground economy, except for the criminal portion, I'll call it, refer to people who aren't paying their fair share. I think that causes resentment to the extent that we don't have sufficient enforcement. You'll know that the Ministry of Finance is investing in additional auditors to ensure that corporations and businesses and individuals pay their proper share of tax. But generally speaking, there's an undermining of confidence in the systems we have, and this is not good for our system because it tends to mean that people will seek to avoid paying taxes and that that would be acceptable behaviour.

I don't believe it is as widespread, although there are frequent reports about its growth. It is something we have to guard against and ensure that our systems require individuals to pay their fair share of taxes.

Mr Ford: Is there an estimate of the size of it? I'm not trying to put you on the spot.

The Chair: You won't have time to put them on the spot. We do have time for one brief comment, if you have one.

Mr Dorey: A number of the members on the committee did look at it last year, and the range is everywhere from 3% of the economy to 15%.

Mr Ford: That's a lot of money.

The Chair: I'd like to thank you, Mr Deputy, and the ADMs and the entire staff of the finance department who joined us today. We appreciate your presentation. We appreciate the knowledge.

This committee stands adjourned until the next meeting.

The committee adjourned at 1752.

CONTENTS

Thursday 5 December 1996

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Chair / Président: Mr Ted Chudleigh (Halton North / -Nord PC)
Vice-Chair / Vice-Président: Mr Tim Hudak (Niagara South / -Sud PC)
*Mr Ted Arnott (Wellington PC)
*Ms Isabel Bassett (St Andrew-St Patrick PC)
*Mr Jim Brown (Scarborough West / -Ouest PC)
Ms Annamarie Castrilli (Downsview L)
*Mr Ted Chudleigh (Halton North / -Nord PC)
*Mr Douglas B. Ford (Etobicoke-Humber PC)
*Mr Tim Hudak (Niagara South / -Sud PC)
*Mr Monte Kwinter (Wilson Heights L)
*Mr Tony Martin (Sault Ste Marie ND)
Mr Gerry Martiniuk (Cambridge PC)
*Mr Gerry Phillips (Scarborough-Agincourt L)
*Mr Gilles Pouliot (Lake Nipigon / Lac-Nipigon ND)
Mr Joseph Spina (Brampton North / -Nord PC)
*Mr Wayne Wettlaufer (Kitchener PC)

**In attendance / présents*

Substitutions present / Membres remplaçants présents:
Mr E.J. Douglas Rollins (Quinte) for Mr Martiniuk

Clerk / Greffier: Mr Franco Carrozza
Staff / Personnel: Ms Alison Drummond, research officer, Legislative Research Service

F-24 & F-25

F-24 & F-25

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Official Report of Debates (Hansard)

Thursday 30 January 1997
Thursday 6 February 1997

Standing committee on finance and economic affairs

Journal des débats (Hansard)

Jeudi 30 janvier 1997
Jeudi 6 février 1997

Comité permanent des finances et des affaires économiques

Subcommittee report

Pre-budget consultations

Rapport du sous-comité

Consultations prébudgétaires

Chair: Ted Chudleigh
Clerk: Franco Carrozza

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 30 January 1997

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Jeudi 30 janvier 1997

The committee met at 1059 in committee room 1.

SUBCOMMITTEE REPORT

The Chair (Mr Ted Chudleigh): Seeing a quorum present, I call the meeting to order. I welcome Mr Wood, the member for Cochrane North, to his first meeting, as well as Mr Rollins to his first meeting. Thank you very much for joining us. I hope you find our meetings interesting.

The purpose of the meeting is to review the subcommittee report. I believe copies of that have been distributed to you. We were able to adjust some of the timing to take into consideration the time schedules of the member of the opposition and the member of the third party in February. Might I suggest that the minister will appear before the committee on Thursday, February 6, and he will be before the committee for one hour. I suggest that we commence that meeting at 11 am, with the committee's approval. In the afternoon we will deal with the staff for a two-hour time frame.

On the other dates we will operate at our normal times, from 10 to 12 and following the orders of the House to 6 pm.

Because we are meeting on Wednesdays, which are not our normal times, I have drafted a letter to go to the House leaders. On the passing of these minutes, that letter will go forward.

If you have any questions from your House leaders, I would ask your cooperation on that as well, so we can get through the pre-budget consultations in a somewhat normal fashion.

Will someone move the subcommittee report? Mr Martiniuk, seconded by Mr Kwinter. All in favour? Agreed.

Is there any other business to bring before the committee at this time? Seeing none, I thank you for your cooperation. Another long meeting of the standing committee on finance and economic affairs. I'll see you next Thursday morning at 11 am.

The committee adjourned at 1101.

Thursday 6 February 1997

Jeudi 6 février 1997

The committee met at 1106 in committee room 1.

PRE-BUDGET CONSULTATIONS

The Chair (Mr Ted Chudleigh): We'll call the meeting of the standing committee on finance and economic affairs to order. This morning's meeting commences the pre-budget consultations, and as is normal in these proceedings, we start with a presentation from the Minister of Finance, the Honourable Ernie Eves. Mr Eves, I understand we have an hour together this morning.

Hon Ernie L. Eves (Deputy Premier, Minister of Finance): I'm looking forward to it, Mr Chair.

The Chair: Thank you very much. If you'd like to start with your presentation, we'll think up some good questions for you later on.

Hon Mr Eves: I'm sure some have already thought some up, but we'll continue.

I am pleased to be able to join the committee this morning, at the beginning of your pre-budget consultation process.

Over the last 18 months, the government has taken decisive action in the province of Ontario to create jobs and to bring our public finances under control.

We have cut the deficit from the $11.2 billion we faced on assuming office in June 1995, and by next year the deficit will have been reduced by more than 40%, to $6.6 billion.

We have cut income taxes for Ontarians to create jobs — 90,000 more private sector jobs last year alone.

We have cut payroll taxes. Our plan will mean that 88% of Ontario employers will be freed from the employer health tax by January 1, 1999.

We are getting rid of unnecessary regulations and red tape so that the job-creating private sector can get on with doing what it does best: creating employment and the wealth needed for a society of opportunity and social justice.

But there is more to do and we will be taking the next steps in our upcoming provincial budget.

Today I'll provide an update on our third-quarter Economic Accounts and third-quarter Ontario Finances as

you begin your deliberations. I am looking forward to the results of those consultations in the coming weeks and to your advice in preparing the budget.

While you may not see it on the front page of the newspapers, there are numerous signs that our economy is picking up in Ontario. The evidence is everywhere. Today Ontario is cited, along with Alberta, as the province most likely to lead in overall growth in 1997.

Overall consumer confidence in Ontario has improved more than in Canada as a whole, increasing in fact by 22.3% last year. And this morning's newspapers report a Royal Bank of Canada study which says that increased spending on furniture, appliances and other big-ticket items "should spur growth in the domestic economy."

We're also deemed to be the most desirable province in which to invest by 59.5% of respondents to a Conference Board of Canada survey.

A January Dun and Bradstreet survey revealed that Ontario business optimism is the highest in Canada as we enter 1997. They report that "It is not surprising that Ontario continues to lead the nation in optimism, and we fully expect this trend to continue in the long term."

The economic results for the third quarter of 1996 being released today confirm the continuing improvement in our economy. From July through September, real growth in Ontario accelerated to 3.8%.

For the fourth quarter, US growth increased to 4.7%, much stronger than was anticipated.

While the results for Ontario's fourth quarter are not yet available, we have a number of encouraging signs that improvement in this province's economy continues. For example, retail sales grew 2.1% in November, and in the fourth quarter Ontario department store sales were up 7% from a year ago, the best growth since 1989.

Stronger growth was most apparent in business investment. Investment in new machinery and equipment grew by about $2.5 billion, or 38.8% at annual rates, in the third quarter. Investment in new plant and office facilities, that is, non-residential construction, also grew very strongly, up 6% in the quarter, while residential construction, which includes both new construction and renovation, grew by 12.7%. These investments form the basis for more jobs and growth, now and in the future.

Economic growth does not come from government. Economic growth, jobs and equality of opportunity emerge from the private sector: from small and medium-sized business, from risk-takers and investors. These are the people making these job-creating investments, and these people created 90,000 jobs last year here in Ontario.

Last year alone, Ontario accounted for 56% of the private sector jobs created in the country. Ontario's Help Wanted index jumped by a record 4.2% in December and by an additional 2% in January, a sure sign of new job creation.

We are taking further steps to help the job-creating small business sector. As I announced earlier this week, we are making improvements to our small business investment tax credit for banks, which will encourage them to provide more long-term financing to small businesses.

Home resales and auto sales are another critical barometer of consumer confidence. Auto sales were up nearly 20% in November compared to November 1995, and the fourth-quarter Ontario home resales have risen sharply, to 176,000 at an annual rate, up 57.4% from a year ago.

Overall housing starts in Ontario rose to 46,700, an increase of 22.4% in the fourth quarter. For all of 1996, Ontario housing starts rose by 20.2%, compared to 8.7% in the rest of Canada.

Ontario is also leading the way in business confidence and investment. Reflecting renewed confidence, planned investment spending by Ontario businesses was up 11.9% in 1996, compared to 0.4% in the rest of the country.

On a year-over-year basis, machinery and equipment investment rose 16.3% in the third quarter of 1996 and non-residential investment in plant and office facilities was up 9.4%.

You can find a very real example of investment growth in this morning's press reports of Toyota's $400-million retooling of its Cambridge plant, which will lead to an additional 1,000 jobs.

Improvement in confidence and in our cost-competitiveness has been a key factor in the improvement in Ontario's trade performance in recent years.

Our trade balance over the first three quarters of 1996 reached an all-time record high of $16.7 billion, almost double the level of only two years ago. Our international exports are up by more than 9% over the first three quarters of 1996, compared to the same period a year ago.

Businesses are responding to the environment for growth and jobs that our policies create. They are also taking advantage of opportunities in Canada, the US and the global economy, and they are being successful. That success means more investment, more jobs and an improving fiscal outlook for Ontario.

Lower interest rates are also boosting consumer spending, consumer confidence and business investment, supporting growth and jobs. Interest rates have fallen substantially since early 1995. Canada's sustained low inflation rate and deficit reduction at both the federal and provincial levels have created the conditions required for interest rates to remain low.

The prime lending rate in this country has fallen by more than half, from 9.75% in April 1995 to 4.75% today. Canada's strong economic performance in getting interest rates down reflects the confidence of international investors in the efforts made by federal and provincial governments to get Canada's fiscal house in order.

The Bank of Canada's clear resolve to contain inflation has also contributed to increased confidence.

Lower interest rates encourage businesses to invest and are also contributing to improvement in our fiscal position. This year alone, our public debt interest costs are now expected to be $195 million below the level we expected in our budget last May.

Real personal disposable income is a key factor in setting the tone for both consumer confidence and consumer spending. In 1995 when we took office, Ontario was reeling under the effects of the tax-and-spend decade. Years of massive spending increases, necessitating crippling deficits and excessive taxation, had begun to hollow out our economy. Even with some 65 separate tax increases, including 11 hikes in personal income taxes

alone, the province still had to borrow money to feed its spending habit. In that period, Ontario government spending doubled and the accumulated debt tripled to almost $100 billion.

We promised to lower taxes to encourage investment and consumer spending and create jobs, and we are doing just that. Our first budget cut taxes not once but 10 times, allowing Ontarians to keep more of their hard-earned dollars, boosting consumer confidence and encouraging job creation.

The immediate impact of our tax-cutting plan is on the disposable income of the people of Ontario. By 1998 we expect that real disposable income in Ontario will have increased significantly from its 1995 level. Lower taxes, more jobs and real wage gains will lead to stronger growth in disposable income and consumer spending.

The economic projection that I presented to the standing committee in November provided a prudent set of planning assumptions on budget-making. At this stage they still remain reasonable, cautious assumptions, and they will be updated in the budget in May.

I continue to fully expect that the economy will grow faster than we have assumed for our planning purposes. The positive performance of the economy confirms that the government's plan to cut taxes and create jobs is indeed working.

The cycle of tax, spend and borrow, if left unbroken, simply is a cycle that feeds on itself in a spiral that spins even faster, and it takes everything down with it. It is a cycle that no longer could be ignored. It is a cycle that our government has broken.

We have moved quickly to keep our promises and make the changes necessary to renew hope and prosperity in Ontario and create a sustainable economic climate that will support important social programs that the people of Ontario deserve.

We promised to balance the budget and we are going to do that. In my November fiscal update I indicated that by next year we will have reduced the deficit, as I said, by more than 40%, to $6.6 billion. As the Dominion Bond Rating Service has confirmed, we are indeed on track to eliminate the deficit and balance the budget of the province by the fiscal year 2000-01.

The third-quarter Ontario Finances which we are releasing today confirm the continuing improvement in Ontario's fiscal performance. The 1996-97 deficit outlook, at $7.7 billion, is $508 million below the budgetary plan. As I mentioned to the standing committee in November, I do not expect that we will need the $650-million reserve set aside in the 1996 budget.

The increase in the revenue outlook I am reporting today is largely a result of higher tax revenue. Total tax revenue is $1.5 billion above the budget plan. Personal income tax revenues are $970 million higher than projected in the budget. Of this, $578 million results from higher 1995 tax assessments. An additional $390 million in income tax revenue is projected in 1996.

The increase in the revenue outlook reflects both the strength of the Ontario economy and the cautious nature of the budget forecast. Even after putting income tax revenue into the year it was earned, total tax revenue is expected to be $957 million above the budget forecast and $511 million above the 1995-96 actual level.

Improved revenue performance has permitted increased investment in the restructuring fund which was created in the 1996 budget. The size of the restructuring fund has been increased from $900 million to $1.8 billion and we have committed over $1.3 billion in restructuring investments to date.

1120

As part of our reforms to make government work better, we will be sharing the costs of social assistance with local governments. A $700-million trust fund for welfare has been established that will provide assistance for communities in the event of unforeseen economic circumstances. I would like to reiterate here that this fund, that $700 million, is the municipal share of a fund that will continue to grow until it reaches $1.9 billion. The province of Ontario is up-fronting $700 million of the municipal share. Municipalities will not be asked to contribute a cent to that fund, for the next three years for certain and possibly forever. In effect, the province of Ontario will be fronting the money for the fund, barring any unforeseen recession, in the next three-year period of time, and I want to make that perfectly clear.

The government has also set aside a fund of some $800 million over the next few years to help with capital and operating expenses; $250 million of this fund will be made available in this fiscal year.

As I said to the committee in November, we are open to new and innovative ideas to accomplish the objectives we have set out in Ontario. The people of this province have told us that they want us to help the private sector create jobs, they want affordable taxes, they want a balanced budget and they want high-quality, affordable services, particularly in health care and education. We have listened and we are delivering.

The next budget will continue to deliver the progress that people have told us they want to see on these fronts. This committee has a central role in helping with that progress. You will be hearing a very broad range of views and ideas. This advice can help contribute to meeting the goals that I believe all Ontarians share. I am particularly interested in hearing ideas on giving more encouragement to small businesses to grow and create jobs.

I look forward to the important contribution the standing committee will make as we prepare for the 1997 budget.

The Chair: Thank you very much, Minister. If you would entertain some questions, we could move, I think, to two rounds of five minutes each starting with Her Majesty's loyal opposition.

Hon Mr Eves: That would be Gerry and Monte.

Mr Gerry Phillips (Scarborough-Agincourt): Thank you very much, Minister. I assume this afternoon the staff might be providing us with some numbers in terms of the revenue outlooks for next year and some of the preliminary expenditure outlooks, just so we can begin looking at 1997-98.

Hon Mr Eves: You will see our revenue outlooks and expenditure projections for certain, obviously, in the

budget. What information the staff is able to share with you they will at this particular point in time.

However, I must point out that governments in Ontario, and of all political stripes, I might add, for years got into the habit of trying to make revenue and expenditure projections for a period of some five years. I think it's proven over the years that no matter which government was in power, they were very largely inaccurate by the time you got to years 3, 4 and 5.

Since we came into office in June 1995, we have adopted an approach very similar to that taken by the federal government, which I believe is a very prudent and cautious one to take. I don't think anybody nowadays can accurately predict with any sense of accuracy where we're going to be even two or three years down the road. As you see from our May 7 budget projections, albeit very cautious and prudent numbers and assumptions that we did make, we were out considerably in terms of the amount of revenue.

Mr Phillips: All I'm asking for is just the next 12 months. That's all. If we're asked to provide advice, we need some help in terms of the outlook.

One question would be on jobs. I prepared some questions here that we're interested in. The job performance in 1996 in our opinion was disappointing. The full-time job growth was about 35,000 jobs, which is the lowest we've seen in three years in Ontario. The number of unemployed went up by 27,000. The campaign promise was about 145,000 jobs a year, and as you know, we're well behind that. Why is it that job creation has been so slow in coming?

Hon Mr Eves: First of all, I might say up front that obviously nobody is pleased as long as we have an unemployment rate in this province of 9.1%. I don't think anybody takes great solace in that. However, I do think, looking at the positive end of the spectrum, the private sector in this province created over 90,000 jobs last year, albeit there was, in rough numbers, a 10,000-job reduction in public sector jobs, leading to a net job increase of some 80,000. I also think it's important to remember that 107,000 more people came on the rolls in looking for employment last year, which is why the unemployment numbers went up from 8.7% to 9.1%, because 107,000 more people thought they had more opportunity now of finding employment in the province of Ontario and were seeking employment in the province of Ontario. That is why the unemployment number went up.

However, if you look at the CIBC economic outlook or report that was produced yesterday, they, along with just about everybody in the private sector, are predicting that by 1998 that number will drop to 8.1%. In their prediction, the University of Toronto is 7.9% —

Mr Phillips: I understand that. I'm just saying it's been the weakest job performance in three years in Ontario. I'm trying to get an idea —

Hon Mr Eves: I disagree with that.

Mr Phillips: You may, but the facts are that full-time jobs were created for 35,000; and in the previous two years, 72,000 and 89,000. The unemployment rate was going down for three straight years; it went up. In 1995, there were 116,000 private sector jobs created; in 1996, 90,000. Private sector jobs are dropping, apparently, in creation. I'm curious why we aren't seeing what I think everybody had been kind of expecting, and that is a rapid growth in jobs, but that our unemployment rate's going up, the number of unemployed is going up and youth unemployment's going way up.

Hon Mr Eves: As I recall, sitting in that chair about a year ago yesterday, to be exact, I was asked the question by a committee member, "When do you expect we will see the transition from your tax reduction into job creation and performance in the Ontario economy?" My answer, I believe — and you can look up Hansard if you wish — from my memory was that I would expect this will take a year, if not two, to fully work its way into the Ontario economy. Obviously, it isn't going to happen at 9 o'clock in the morning. I think if you listened to the remarks I made earlier, there are all kinds of positive signs that the economy in the province of Ontario is improving and indeed revenue is up $1.5 billion.

Mr Phillips: No, I'm just curious on the jobs.

Hon Mr Eves: The revenue being paid in taxes of all kinds in the province is indicative of more people working, more people paying tax: more people paying income tax, more people paying retail sales tax, more consumer spending, more taxes of all kinds, more corporate tax being paid by far in the province this year than last year. That means people indeed are creating jobs, they are working and they are paying more taxes. That's why the revenue numbers are going up. Despite the fact that all our critics said that if you lower taxes you will have lower revenue, we have lowered taxes and the revenue is increasing.

Mr Phillips: The revenue's lower than your officials said —

The Chair: Thank you very much, Mr Phillips. We move to the third party. Mr Martin.

Mr Tony Martin (Sault Ste Marie): I appreciate the opportunity to participate here this morning and to ask the minister a few questions. Certainly, your presentation has not surprised a whole lot of us around the table in that it paints a picture, as governments are wont to do, that shows what you are hoping or proposing to do in the best of lights. Indeed, it speaks to something I think we all believe, those of us who have chosen to come and live and work in Ontario, and that's that Ontario is a good place to live, Ontario has the potential to be a strong economy and in some sectors is doing quite well.

We're also, by your presentation this morning, assured again that you are working very closely with your partners and advisers. As a government and as a group of ministers concerned about the economy of the province, you've done a fair amount of travelling abroad to listen to the financiers and operators at that level as to what it is they feel would be in their best interests to be doing in Ontario.

1130

However, what's glaringly missing here is any reference to the question of consultation at home, any involvement or conversation with local authorities and community economic development organizations who, I suggest to you, in my conversations with them are very concerned with what you're doing, because they understand that there is no simple, narrow answer to the problems

and the challenges that face all of us. In my understanding of how an economy does best, qualities like stability and confidence are of utmost importance. Yes, we have an external market, but we also have a domestic market and an economy that we need to be concerned about.

What you've achieved in the private sector in the numbers and figures that I'm looking at is more than negatively compensated for by what you've done in the public sector. The impact of the changes that you've made has been quite devastating to many communities and to many families and people in this province. I myself have spent a fair bit of time, in my own community particularly, going around and speaking with people. In contrast to what you present here this morning, there's a great deal of instability, lack of confidence and anxiety out there.

I would suggest to you that if we really want to move forward into the next century in some optimistic fashion, we need to have everybody on board, that it's not enough that Bay Street be on board, but the whole of Ontario be on board, and those people who have contributed over the years in such a fundamental and important way to the economy who now find themselves in a position where they don't know where they belong any more and how they can continue to contribute need to know how that fits into place.

You've done a number of very dramatic things in your short time in government. More recently, the downloading to municipalities of the cost of services that the province traditionally picked up is the latest salvo, barrage, at communities and at people.

The Chair: Is there a question, Mr Martin?

Mr Martin: Yes, there is.

The Chair: Your time has almost expired and he won't have time to answer it.

Hon Mr Eves: I don't think he wants to have —

Mr Martin: The question is, when are you going to share with us any plan, any impact study, any information around the impact of your latest round of announcements and how that will affect communities and how that will play into the economic picture and forecast that you're painting here this morning?

Hon Mr Eves: You're correct that our government is moving quite rapidly. We, unlike some of our predecessors of all three political stripes, are doing exactly what we said we would do and we're doing it, quite frankly, as quickly as we can.

We understood one thing the people of Ontario told us, that the status quo was a non-starter in this province. You talk about the impact on the public sector, and I do concede — in fact, I indicated in my response to Mr Phillips that there have been some 10,000 public sector jobs lost in the Ontario economy in the past year. There have also been some 90,000 private sector jobs created, for a net increase of 80,000 jobs. The private sector jobs created in Ontario are in the neighbourhood of 57% of all the private sector jobs created in this country last year.

With respect to your concern about consultation, I can assure you that leading up to last year's budget I personally consulted on an individual basis with some 40 to 50 groups of various and diverse backgrounds, from all sectors of Ontario life, and will continue to do so coming up to this budget. This committee, of course, will be having its deliberations; individual members go out on their own and they consult with people in their communities; the Sampson-Spina task force that has been out and across the province for the last year has consulted primarily with respect to the small business sector, which is the backbone of Ontario's economy, in fact the backbone of Canada's economy.

I can tell you that the private forecasters, as indicated on the screen here, are projecting much greater growth than our cautious and prudent assumptions and projections in our budgetary documents. I can tell you that last week I was in Windsor, London, and Niagara Falls — Windsor, that great hotbed of Progressive Conservatism in the province of Ontario. The mayor of Windsor, not exactly a known card-carrying Progressive Conservative, indicated that his response to the Who Does What initiatives was he was taking a very responsible wait-and-see approach. He wasn't screaming and yelling and talking about the millions of dollars a year this is going to cost the city of Windsor.

He said, "I don't know how anybody can possibly predict what the expenses are going to be until they see what the 1996 assessments of their properties are going to be, until they see what their exact costs to pick up responsibilities that the province is asking them to pick up are going to be in dollars and cents."

It's impossible for anybody to give you an accurate figure as to exactly what is going to happen. The final impact will only be able to be determined when the properties in the province of Ontario are reassessed at June 30, 1996, values, everybody's on a level playing field, every municipality makes its decision with respect to mill rates and how it chooses to disburse the tax burden among six different classes of property taxpayers in the province in their particular municipality.

The Chair: If we could move to the government side.

Mr Tim Hudak (Niagara South): Thank you, Minister. It's good to see you back before the standing committee once more. I've noticed an interesting change of tone in questions from across the floor and it'll be interesting to see how it plays out over the next few weeks. About this time last year, as you said, there was a great deal of opposition to tax cuts, I think based on the opposition's expectation that tax cuts would reduce government revenues. But from your presentation today I'm seeing a different outcome.

Minister, my question to you is, what has been the impact of tax cuts on government revenues and on economic activity?

Hon Mr Eves: I think you can readily see that in the third-quarter finances that were released today. If you turn to the page that talks about revenues, which is page 8, and if you look at not only the budgetary projected plan but more importantly, I suppose, the actual numbers for the fiscal year 1995-96, and compare those to the current outlook — which I would caution people are still prudent assumptions and I still think that by the time the final numbers come in for March 31 for this fiscal year, there's still room for improvement even with those numbers, because we're still making some very cautious and prudent assumptions. If you compare the 1995-96

actual lines to the current outlooks for 1996-97, in every category the government numbers are up, save one, employer health tax, where we don't want them to be up, because we're starting to eliminate that tax.

Mr Gerry Martiniuk (Cambridge): Welcome, minister. You've already given us the good news about Toyota investing $400 million in Cambridge. That's in addition to the $600-million plant that's presently going up. That means a thousand jobs for our municipality, and we have one of the lowest unemployment rates in Canada right now. What's happening in the rest of the province? Have the tax cuts contributed to consumer confidence and investment in other parts of Ontario?

Hon Mr Eves: As I said, last week I was in Windsor on Thursday, I believe, in London on Friday and Niagara Falls on Saturday. I can tell you that in all three of those communities, the general populace is very supportive of the direction this government is taking. I think the general populace is much more optimistic today that they were a year ago or two years ago. They can now see some light at the end of the tunnel. They are going to be able to keep more of their hard-earned dollars.

Governments quite often forget that the money belongs to the people. A government per se has no source of revenue, other than taking the people's money and redistributing it. I think you have to have that incentive for people to be able to keep some of their hard-earned dollars to invest in the province of Ontario, to expand in the province of Ontario and particularly in the small and medium-sized business sector.

The Chair: Mr Rollins, do you have a short question?

Mr E.J. Douglas Rollins (Quinte): Yes. Thanks for letting me be on this committee. I certainly appreciate it. I wasn't here last year and I'm looking forward to it.

Minister, with the increase in spending, is it not more beneficial to creating jobs than the tax cut? I know it looks right at the present time — we hear from the opposition continually on that line of thinking.

1140

Hon Mr Eves: With respect to spending, this government realizes that with some of the changes we are making, we have some substantial reinvestments that have to be made. That is why we created the reinvestment fund to start with, of some $900 million. Now that we find revenues are far in excess of what we projected them to be, we've been able to expand the size of that fund, as of today, up to $1.8 billion.

We do understand that when you're in a rapidly changing health care system, for example, and you have to change that system and base it more away from the institutionalized system that we had previously and provide the latest up-to-date technology, provide front-line care to patients, provide in many cases care for patients at their homes or on an outpatient basis, whereas years ago that wasn't the case that is going to require substantial restructuring, reinvestment by the province, and we're prepared to make those types of reinvestments. The reinvestments we're planning on making are of a structural and capital nature that will allow the province of Ontario to go ahead in important fields of health care and education for many years to come. I realize that sometimes it's very difficult for people to see that in year one when you're looking at a 10- or 20-year game plan.

The Chair: If we could move back to the opposition.

Mr Phillips: Just a small detail question. I notice on the third-quarter report on page 2 you indicate that Revenue Canada has upped the assessment of 1995 returns on personal income tax, but they're included, I gather, in this year's numbers. What is that? How much is that?

Hon Mr Eves: I believe that is the number —

Mr Michael Gourley: At the moment we have in the total figures — this is on page 2, as it's indicated there — $970 million above the second quarter. The share of this that is related to 1995-96 is approximately $570 million. I don't have the exact number.

Hon Mr Eves: I think it's $578 million.

Mr Phillips: Is it fair, then, to say that in actual numbers, personal income tax revenue will actually drop in 1996-97 over 1995-96?

Hon Mr Eves: No.

Mr Phillips: I'm sorry, if you add the $570 million back into 1995-96 and take it out of 1996-97, personal income tax revenue is dropping year over year. Where is the magic in this tax cut, then? This looks very, very interesting.

Hon Mr Eves: First of all, in every year there's always an adjustment.

Mr Phillips: It's dropping.

Hon Mr Eves: The federal government collects the tax; they keep the money; they distribute the provinces' share to them, in some cases a year later, in some cases a year and a half or two years later. You could look at the 1995-96 numbers for the province of Ontario and you could find some money that was included in that year that was for the 1994 year, for example, or perhaps even for the 1993 year. There's overlap that goes on every single year, because we don't collect our own provincial income tax, like the province of Quebec does. Perhaps, then, they've made a good argument for us doing so in the future.

Mr Phillips: But can you confirm that if you put the $570 million back in 1995-96 and take it out in 1996-97, personal income tax revenue will actually be dropping in 1996-97 over 1995-96? Is that not the case?

Mr Gourley: The minister indicated earlier that total tax revenues will actually be going up —

Mr Phillips: Income tax.

Mr Gourley: — and that the impact of the tax reduction was in fact going to show itself in terms of increased retail sales and increased corporation taxes and so on as jobs were created. So the figure that we should be looking at in this issue, in my view, at any rate, is the total tax revenue, which clearly shows, as the minister indicated —

Mr Phillips: I will just say that we came in here being told personal income tax revenue was up dramatically, things were working well. We now see if we adjust — because they now say $570 million of this revenue actually should be put in 1995-96, take it out in 1996-97 — personal income tax revenue now drops by $100 million.

Hon Mr Eves: Total tax revenue in this province will be up $511 million in 1996-97, compared to 1995-96,

adding back in the $578 million in personal income tax revenue from 1995.

Mr Phillips: This is very interesting.

Mr Gourley: If I could just clarify it, with respect to the rules we are now following, the accrual rules require that we report that income in this year, and the rules will require that we report that in future years, so it is not possible to say — we wanted to be clear that the revenues we are collecting are made up of a number of years, including this year's personal income tax revenues.

Mr Phillips: I understand.

Mr Gourley: So these are properly accounted for, as we have shown them here, as an increase, and they will be again next year as well.

Mr Joseph Cordiano (Lawrence): Minister, in your projections for job creation, I noticed in some of the papers you put forward, with the Market Ontario plan, you're banking on 237,000 jobs being created as a result of foreign direct investment. Can you give me a projected number of dollars with respect to foreign direct investment that we can anticipate over the next three to five years? You use those figures to determine the basis for part of your job creation numbers.

Hon Mr Eves: No, I can't provide that for you off the top of my head, but I will ask my officials to try to find whatever they can for this afternoon's deliberations. I can tell you that what we did project in the November 1995 fiscal update was that we anticipate the Ontario economy will create between 200,000 and 300,000 jobs over the next two years.

Mr Cordiano: That seems like a huge number with respect to your job creation plan for foreign direct investment. You're anticipating an increase that's quite substantial in order to reach those numbers. You said in your fiscal outlook in your first budget that you were going to create 725,000 new jobs in the first term of this government's administration.

Hon Mr Eves: No, over five years. We've always said over five years.

Mr Cordiano: We add up the numbers, Minister, and your job creation record is pretty dismal in terms of its first year of operation. You're not meeting your targets. You're not on target to meet the 725,000 jobs that you promised the Ontario electorate you'd create.

Hon Mr Eves: I guess if you assume, Mr Cordiano, that only 80,000 jobs net will be created for the next four years in a row, you'd be quite accurate in that assessment, but we don't believe that's the case. We believe that as these changes work their way through the economy, in fact those job numbers will continue to grow.

Mr Cordiano: You've had 18 months of —

The Chair: Thank you very much, Mr Cordiano. We'll move to the third party.

Mr Howard Hampton (Rainy River): My question concerns the last time you appeared before this committee and the interrelationship between then and now. When you appeared before this committee on November 28, you said quite clearly that you would be able to make the expenditure cut announcements when the decisions with respect to the Who Does What panel had been made.

We've received all sorts of information from the Who Does What panel since November 28, but we still haven't heard from you, the finance minister, as to where the $3 billion is going to come from. You and the Premier said that would be announced in the fall economic statement. You didn't announce it in the fall economic statement. So I want to ask you now, where in your mind is the $3 billion coming from that you have acknowledged you need to cut and I believe the Dominion Bond Rating Service has acknowledged you need to cut? Can you delineate that for us?

Hon Mr Eves: I think what's happened between my appearance in November and today, as you can see by the third-quarter update, is that revenue projections are up strongly in Ontario. They're far exceeding what we had projected, by about $1.5 billion. If you look at public debt interest alone, you're looking at a $195-million savings in this fiscal year alone, and that too is just today's prudent and cautious assumption.

Ministries will continue, through their business plan approach, to be asked to find cost savings year after year on an annualized basis. We may not in fact need to find $3 billion in savings to achieve our target of balancing the budget by the fiscal year 2000-01, and if we do not need to reduce expenditures by $3 billion, we won't. This isn't strictly an exercise in meeting some number; it is an exercise in trying to provide the most appropriate service to the people of Ontario, especially in the fields of health care and education, in the most efficient and cost-effective manner possible.

1150

Mr Hampton: I might buy your tax revenue improvements of $1.5 billion, I might buy that — I'll leave that aside for a minute — but I think you're still out by $1.5 billion.

My sense of where the money is coming from is that the money is in effect being downloaded on municipalities in your mega-week announcements. The money will come out of the $1 billion you plan to take out of education and the money will come out of health care. But it seems to me you've identified $1.5 billion in potential tax improvements. By your own accounting of last fall and by the announcements you made last fall, though, I think you still have to tell us where the other $1.5 billion is coming from. I think people need to know that.

Hon Mr Eves: We will continue to find efficiencies at the provincial level and there's no doubt that we believe municipalities will continue to find them as well.

I can give you an assurance with respect to health care. I can unequivocally tell you that this government will absolutely live up to its $17.4-billion commitment to health care; no less than that. This year, as you know, it's in excess of that. It's $17.7 billion. As a matter of fact, I think you will see that the government will continue to spend increasing dollars on health care as the years go on, because I don't believe you can make the significant changes that have to be made to update the health care system in Ontario without very significant reinvestments indeed being spent.

When you talk to the six mayors, for example, albeit they do not agree with the government's plan to create one unified city, they estimate they can save $240 million on an annualized basis by running six municipalities. I think it's fair to assume that with one unified city we will achieve cost savings of at least that $240 million a year.

I also think it's fair to assume that the city of Toronto alone is losing on an annual basis about $100 million in revenue, because in the city of Toronto, over 40% of its assessments are appealed every year. They're losing a tremendous amount of revenue out of what is a very inequitable and antiquated assessment system in Ontario. When you compare that, for example, with the appeal rate in the province of British Columbia, which has a current value system updated on an annual basis, the appeal rate in British Columbia is less than 2%. That is an extremely significant saving. I'm just talking about the city of Toronto and we're talking about $100 million a year.

I think you will see as we go through the next two, three and four years that not only the province but indeed municipalities will be able to find considerable efficiencies within the responsibilities they've been asked to assume and within the responsibilities we are assuming.

The Chair: Thank you very much. Could we move to the government caucus.

Mr Wayne Wettlaufer (Kitchener): Good morning, Minister. My riding of Kitchener borders Gerry's in Cambridge, and I'm just about as thrilled as he is with Toyota's announcement this morning that Kitchener's economy is a good mix.

Small business is still the backbone, however, as you stated, throughout Ontario. I think not enough is being said about what our government has done for small business. We were gratified with the announcement by one of the banks last week in Kitchener about a program it was making to enhance small business and to provide jobs. I think that was a direct result of your budget in April. I wonder if you could put on the record all the things that we have done for small business.

Interjections.

Mr Wettlaufer: They're not looking for handouts.

Hon Mr Eves: I think we have done all kinds of things, obviously, for small business. I think one of the most significant things when you talk to the CFIB or any other group that is very representative of the small business community — in fact even Mr Martin, when he was in opposition, said any payroll tax is a job-killer. I'm trying to explain to him that that applies to EI premiums today at the federal government level but he doesn't seem to be listening.

If you look at any survey that CFIB has done — and 80% to 90% of its membership is from the small business community, which is the backbone of our economy — they feel that payroll taxes have the most direct impact on their being able to create jobs, expand and employ more people. I think the biggest move this government is making as far as they are concerned, besides as individuals paying less provincial income tax, is the employer health tax move. That was a job-killing tax that the Peterson government introduced. It has done nothing but discourage employment and hiring in Ontario since its inception. It is a very unfair tax.

We have replaced it with the Fair Share health care levy which we're adding back in to those people who earn more than $60,000 a year. They're now paying the load that employers used to pay, so of course their share of provincial income tax reduction will be substantially less — down to 17.1% at the upper end of the income scale, the top half of 1% of income earners in Ontario. By January 1, 1999, 270,000 businesses will pay absolutely no employer health tax whatsoever and every employer in Ontario will be exempt on the first $400,000 of payroll. I think that's probably the most dramatic and significant move we've made.

However, when you look at the Red Tape Review Commission, when you look at the agencies, boards and commissions reduction, those are all things eliminating 1,500 regulations, eliminating 40-some statutes in Ontario, just as an initial first cut at eliminating regulation in Ontario. Every time you ask a small business owner who has one or two or 10 or 12 employees to fill out a form, you're costing that person an awful lot of money in the day-to-day operation of their business.

We made a commitment with respect to workers' compensation premiums, and we are reducing those on average by 5%. Albeit there are some shifts in some categories and classes that weren't paying their fair share before and will now have to pay more, but there are more dramatic shifts the other way where people are paying far less now than they had to before. That's fair, because it's based on performance and their safety record in that particular industry.

I think we're doing all kinds of things. I think the property tax assessment reform that we're introducing today will be of great benefit to commercial and especially small commercial properties in Ontario. Municipalities will now have the ability within their municipality to determine if they want to have two different rates for property taxation on small commercial properties: one for small commercial properties and one for larger commercial properties. I think when you look at the cumulative effect — and there are many more initiatives. The bank credit system — we did a surtax. We dovetailed last year in our budget with the federal government on its banking surtax, but we're allowing those banks to earn that extra tax back if they can demonstrate to us that they're providing those funds to the small business community.

On Monday, we indicated we made another reform or improvement, I believe, to that regulation in that we're now extending it to unincorporated businesses, which are the small individual businesses run by a family, two spouses or by an individual. Those are the real job creators and those are the people who really get whacked every time we introduce a new regulation, a new payroll tax. We increase taxes, we ask them to fill out another form, we put them out of business.

The Chair: Mr Ford, do you have a brief question?

Mr Douglas B. Ford (Etobicoke-Humber): Yes. Minister, I'm very impressed with the positive responses this morning from you. I'd like you to reiterate the balanced plan which sets out clear targets to eliminate the deficit in the new millennium, 2000-01, which was the keystone of the target. Would you please comment on how the province's finances have been performing under the balanced budget plan and what are the prospects for delivering on target over the next few years?

Hon Mr Eves: First of all, if you look at the third-quarter finance statement today, we are certainly ahead of target for this fiscal year. Last year we exceeded our

target by some $587 million. This year our current projections are that we will exceed our target. Even increasing the restructuring fund twofold from $900 million to $1.8 billion, we will still have a surplus of $508 million at the end of the year. That's today's projection.

I would like to caution you that that is still a very cautious and prudent assumption. Those figures could rise yet again between now and March 31, between now and the announced numbers in our budget of next spring, because you never know, of course, until the end of the fiscal year how much money for certain you've been able to bring in, especially with respect to corporate taxation where they pay in instalments. A lot of them save, so to speak, and pay right at the end of the year. If that trend continues, as it has in past years, we may well exceed our targets there as well.

We won't have any problem, I don't believe, in meeting our target, not only this year but next year, which is $6.6 billion. I don't foresee, and I don't know any private forecaster who has indicated that they foresee, a recession on the immediate horizon in the province of Ontario or indeed in the country of Canada.

When you travel abroad — and somebody alluded to that earlier; I believe Mr Martin — I can tell you, whether you're in London, England, or New York City or Zurich or any other place, the response is very positive with respect to Canada as a country as a whole. We now have 11 governments in Canada, regardless of political stripe, all going in the same direction. They all understand that if they don't get their act together and reduce their deficits and balance their books — and most of them are far ahead of the province of Ontario, the province of Quebec and the government of Canada — then we aren't going anywhere.

We are all working in sync today and we are all working towards the same common goal. I think that is reflected in the stability of the Canadian economy: low interest rates, lower short-term interest rates in Canada by far than in the United States of America — I can't remember the last time that happened — very stable and low inflation compared to almost any other country in the industrialized world. We are indeed looking for nothing but positive news in the next two, three, four years ahead.

Mr Ford: Very good.

The Chair: Thank you very much, Minister. We appreciate your report to our committee to commence our pre-budget consultations and we look forward to presenting you with our report in the early spring.

As there is a division being called in the House, this meeting stands recessed until 3:30 this afternoon when we will discuss with Ministry of Finance staff.

The committee adjourned at 1203.

CONTENTS

Thursday 30 January 1997 *and* Thursday 6 February 1997

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Chair / Président: Mr Ted Chudleigh (Halton North / -Nord PC)
Vice-Chair / Vice-Président: Mr Tim Hudak (Niagara South / -Sud PC)
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*Mr Joseph Cordiano (Lawrence L)
*Mr Douglas B. Ford (Etobicoke-Humber PC)
*Mr Tim Hudak (Niagara South / -Sud PC)
*Mr Monte Kwinter (Wilson Heights L)
*Mr Tony Martin (Sault Ste Marie ND)
*Mr Gerry Martiniuk (Cambridge PC)
*Mr Gerry Phillips (Scarborough-Agincourt L)
*Mr Gilles Pouliot (Lake Nipigon / Lac-Nipigon ND)
*Mr E.J. Douglas Rollins (Quinte PC)
*Mr Joseph Spina (Brampton North / -Nord PC)
*Mr Wayne Wettlaufer (Kitchener PC)

**In attendance / présents*

Substitutions present / Membres remplaçants présents:
Ms Lillian Ross (Hamilton West / -Ouest PC) for Mr Wettlaufer
Mr Len Wood (Cochrane North / -Nord ND) for Mr Martin

Clerk / Greffier: Mr Franco Carrozza

Staff / Personnel: Ms Alison Drummond, research officer, Legislative Research Service

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Consultations prébudgétaires

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday 12 February 1997

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Mercredi 12 février 1997

The committee met at 0905 in committee room 1.

PRE-BUDGET CONSULTATIONS

The Chair (Mr Ted Chudleigh): I call the committee to order. In the continuing saga of the pre-budget consultations, we have this morning the privilege and the honour of welcoming Mr Gourley, Deputy Minister of Finance, who I believe will be with us for an hour this morning and again for an hour tomorrow morning to make up for the two hours we lost last week. Thank you very much for taking into consideration our difficult scheduling times. I'll turn it over to you for a presentation, and then we'll fill up the rest of the hour with questions.

Mr Michael Gourley: Thank you very much. I'd like to begin with a couple of remarks, first of all to introduce the assistant deputy minister in the office of economic policy, Mr Steve Dorey. He will be here with me this morning, and then tomorrow we will have the assistant deputy ministers responsible for financing, on the one hand Mr Tony Salerno, the CEO and vice-chair of the Ontario Financing Authority, who will be here to talk about some of the details of Ontario's financing program. Ms Anne Evans, who is the assistant deputy minister responsible for fiscal and financial policy, as well as being the controller, will be here tomorrow to discuss the fiscal plan.

Before Steve gets into his presentation, I just want to remind the committee of the presentation we gave last fall, in which we spent some time illustrating the potential confusion that arises each time we present quarterly results. In the case of the presentation we gave last week, we were presenting the third-quarter Ontario economic accounts results and the third-quarter Ontario finances accounts. These are, in the case of the economic accounts, a detailed breakdown of Ontario's economic performance for the third quarter which, members will recall, actually constitutes the three months from July through September. The third quarter in the economic presentation consists of the three months from July through September. The third quarter for Ontario finances is still the third quarter, but it is a different set of months, October through December. Both reports are for the third quarter, but they're for a different set of months. I think it's important as we get into the detailed discussion that we understand that important distinction.

I'd ask Steve to begin his presentation, to talk about performance and Ontario's economy.

Mr Steve Dorey: First, I apologize for the date marked February 6. We had planned to be here last week, and we haven't changed the date on the first slide.

The minister presented the third-quarter Ontario economic accounts to you last week. As he indicated, the economy grew quite strongly in the third quarter, 3.8% real growth, led by 38% annual rate of growth in machinery and equipment investment, strong non-residential construction and strong housing. Because the third quarter of the 1996 calendar year is obviously some distance behind us, I'd like to go beyond that and talk about what we've seen; we obviously don't have fourth-quarter accounts at this point, but we'll talk about the indicators we have seen and what they say about where the economy is as we enter 1997 and prepare for the budget.

The second slide gives you a comparison of our budget forecasts with the outlook, either actuals if we do have final data for the year 1996 or, in the cases where we don't have actual data, the numbers we presented in November. I'll talk about how good those numbers are at the present time, whether they should be higher or lower.

With respect to real GDP, at the time of the budget we were projecting 1.9% real growth for 1996. Given the strength we saw in the third quarter, it looks like it will now be somewhat over 2% for the year. The November statement projected 2.3%, and I think we'll get there by the end of the year; we may be slightly higher than that. In terms of nominal GDP, we projected 3.4% growth for the year in the budget. In November it looked somewhat lower, 3.3%; given the 6%-plus growth in the third quarter, it now looks like nominal GDP will come in closer to 4% than the 3.3% we had expected in the fall.

Retail sales: The number we presented in November was significantly below the budget number. We were looking at a decline of half a percent for the year, but we pointed out at that time that retail sales is an indicator that has some problems with it: It doesn't really capture computer sales, which are growing very strongly; it doesn't capture home renovation activity, which is also growing quite strongly. Nevertheless, through the fourth quarter of this year, at least through November and given early indications for the Christmas season, we did see quite strong sales both of the things outside that retail sales base and the retail sales base itself. We would expect that number to be better than the minus 0.5% we had projected in the fall.

One point there: Obviously, the third-quarter finances projecting that retail sales tax revenue will be $160 million higher this year than we had projected at budget time is a clear indication that retail consumer activity is stronger than we had expected at the time of the budget, in spite of the fact that retail sales growth is lower. Again, it's simply a distorted indicator.

With respect to housing starts for the year, they came in at virtually what we had projected at the time of the

budget: 43,100 housing starts versus 42,600 at the time of the budget.

Corporate profits: We reduced our projection in the November statement from the budget, from 8.3% growth to 6.2%. Subsequently, in the third quarter, we had a corporate profits growth of over 50% at an annualized rate, and we would expect that number will come in better than the budget number at the end of the year. Again, that's consistent with the fact that we've moved up our projection for corporate income tax substantially in the third-quarter finances.

CPI inflation came in slightly higher than we had expected on the year.

The employment numbers came in virtually in line with the budget projection. The unemployment rate was slightly higher, and that's because the labour force grew more quickly than we had projected, and therefore the number of unemployed and the unemployment rate are slightly higher than we had expected at the time of the budget.

To go quickly through the most recent indicators other than the national accounts, you can see there that department store sales surged in the fourth quarter of the year, rising at an annual rate of 7%, which is the strongest fourth-quarterly growth in department store sales since 1989. On the right you see computer and auto sales. Again you can see strong growth in the dollar value of auto sales in 1996 — this is through 11 months; and computer sales, which tend to get excluded from the retail sales base but not the retail sales tax base, are up this year by 17.6%.

Additional indicators of consumer spending: Consumer confidence has risen 22% this year and rose over the course of the year. Again, you can see in the fourth quarter strong growth in the retail sales themselves, up 3.9% in the fourth quarter.

The housing market: Housing had a strong year and finished the year particularly strongly. We had housing starts rising 22.4% in the fourth quarter, giving us a strong starting point going into the new year. With respect to home sales, you can see that home sales finished — December ended up 77% over a year ago, and were again very strong in January. For the year as a whole, we had home resales up over 30%. Toronto was even stronger than the rest of the province, with resales up 42% over the year and a rise of 83% in January over a year earlier. The housing market is very strong, certainly new home sales and resales are very strong, and that will lead, we expect, to more acceleration in the housing construction industry over the course of the year.

With respect to interest rates and what we're seeing there, you can see that since we appeared here in November, forecasters have raised their projections somewhat with respect to interest rates for 1997, a 13-basis-point increase in the average forecast for three-month treasury bills and a 40-basis-point rise in the 10-year government of Canada bond outlook. That largely reflects stronger growth in the US than we had expected at that time and good growth here.

The other thing to note, though, is that the projection for interest rates at this point is still two full percentage points below where it was at the time of the budget last year and, with respect to long-term interest rates, again a full percentage point below the expectation at the time of the budget last year. The interest rate outlook is still very positive for the economic outlook through 1997.

The outlook for the dollar: There's a fairly wide range of views on the dollar over the next two years, from modest increases to quite substantial increases. The average view is that over the next two years, the dollar will rise from its current level of about 74 cents to about 78 cents. The range of views is anywhere from staying basically flat to rising to about 85 cents, but that's an outlier, I think. The question of whether that does significant harm to our competitiveness has certainly come up. You have to remember that modest increases in the exchange rate in line with improving competitiveness and lower inflation don't hurt our competitiveness; that is, if our inflation rate is lower than our principal trading partner, the US, by 1% and our exchange rate goes up by 1%, the cost position remains unchanged.

This slide gives you a picture of the competitiveness of key industries. This was done by KPMG in 1996 to show the competitiveness of Canadian industries versus their US counterparts. You can see that with a 73.5-cent dollar, which is about where it is, the auto parts industry enjoys about a 7% cost advantage over its US competitor; medical equipment about a 7% advantage; software over a 10% advantage; and overall competitiveness about a 7% advantage.

If the exchange rate were to rise to 80 cents, which is a little above what the average forecaster expects and what we expect over the next couple of years, that would reduce the competitive advantage but it wouldn't eliminate it. The competitive advantage in those industries and overall would remain somewhere in the order of 3% to 4% more competitive in Ontario than in the US.

I'm not sure the final slide is in your package, but it's just the question of where the private forecasters have gone in their view for 1997 since the budget and since November. You can see that private forecasters are consistently raising their projections for growth in both Ontario and Canada. The current outlook for Ontario is 3.5% growth this year on average; that compares to the 2.9% we were showing you in November and which we've built our fiscal plans around.

That's a brief update on what's happened recently.

Mr Gourley: We'd be happy to take questions now on this part of the presentation.

The Chair: Will you go back into making a further presentation on other issues, or will we just go into —

Mr Gourley: We thought we would do that tomorrow. We could have the questions on the economy today, and tomorrow would be about the fiscal plan, if that's acceptable.

The Chair: Good. We have, then, approximately 35 minutes. Would you like to go in four rounds of approximately six minutes each? Okay. For six minutes, we'll start with the opposition.

0920

Mr Joseph Cordiano (Lawrence): I wanted to ask about forecasts and projections on growth rates. While this is obviously something that's come up in the last day or so, the author of the Common Sense Revolution plan,

Mark Mullins, chief economist of Midland Walwyn, suggested we're going to be facing a recession in 1998. Now, he is the lone wolf out there.

Mr Tim Hudak (Niagara South): The lone bear.

Mr Cordiano: No, he's a wolf: He came up with the revolution, and that was rather aggressive. His forecast certainly appears to be rather aggressive in terms of its downward trend. Obviously, he's out of sync with other forecasts. What is your projection for 1998? We heard the finance minister talk about a rosy projection for the next three and a half years. Projections being what they are and economists being what they are, you're all over the place in terms of possible scenarios, but he's certainly out of sync with the mainstream in terms of what most economists are projecting.

Do you have any scenarios whereby there's a possible recession factored into any of your projections for growth, job creation — which, by the way, is what I'm really interested in. Your forecasts on job creation and the actual numbers are not in sync. The job creation number forecast by this current government — they're certainly not meeting their targets. Can we expect any difference with respect to job creation targets by the time 1999 rolls around? We already see that there's a great gap occurring in the job creation numbers.

Mr Gourley: I'd like to start with a couple of comments. First of all, one of the points we've tried to emphasize is that our projections are for purposes of building a fiscal plan, so we've adopted a policy of being prudent and cautious in respect of our own projections. We're not trying to predict where the economy will go. We are trying, though, to provide a projection which is reasonable for the purposes of building a fiscal plan, because the economy generates the revenues on which we base our fiscal plan.

As a result, in order to demonstrate that prudence and caution, we use a comparison with the leading economic forecasters. Our intent is that we will always be on the small-c conservative, prudent and cautious side of those forecasts. Doing that, we have to use an average of what the private sector forecasts. One forecaster out of the 30 or so people who might arguably be involved in this business is not likely to influence that average very much. Every forecasting group will have its differences on job creation, on inflation, but we try to combine them using this average method we do, to say, what on average are most private sector forecasters saying about where the economy will be going?

Our first instance is to ensure that we have this prudent and cautious approach in our forecasts. In respect of recession scenarios, we've been looking out two years as we've been talking here and providing those forecasts or projections based on that two-year time frame. We are not projecting, in our fiscal plans, a recession scenario for Ontario.

In respect of the jobs numbers, as Mr Dorey indicated, the jobs numbers we projected for 1996 — I think the number was 81,000 and the net new jobs created in fact ended up being 80,000. We had looked at those projections and it turns out our prudent and cautious projections were reasonable. In terms of growth, our prudent and cautious projections were just that; they were well below what actually has happened and that is something we will be looking at even now, as we get fourth-quarter results and fourth-quarter details. Our real GDP growth was projected at 1.9%; the presentation last week showed that our projection — again, since we don't have the full data for 1996 — is 2.3%, which may, because of a very strong quarter, yet be cautious. It may be higher when we've finished.

Mr Cordiano: Well —

Mr Gourley: Sorry. I wanted to give Steve an opportunity to respond to some parts of your question that I haven't answered.

Mr Cordiano: I just want to be clear about this: Will you be on target? The government has made a commitment that 720,000 jobs will be created during their mandate. That is a target that I think is unachievable now, and I want to understand from you how you will achieve that target in the four years this government will be in office in its first mandate.

Mr Gourley: I wanted to respond specifically. I thought you were indicating that the projections we had made were not being achieved, but we're happy to respond to that. I'd like to have Steve respond to comments with respect to Mr Mullins's projections and his view of particularly the US economy and how that translates into the Canadian economy.

Mr Dorey: There is nothing in the Canadian economy that would produce a domestic-produced recession, and I think Mr Mullins agrees with that. If you remember, the two large recessions we saw in the early 1980s and early 1990s were preceded by, in the first case, interest rates of 20% and, in the second case, interest rates of 14% and a dollar that was valued at close to 90 cents. We're a long way from that kind of situation.

I think the scenario Dr Mullins has laid out is a situation where growth in the US is significantly stronger than we've built in or than most people expect in 1997. That then produces a reaction from the Federal Reserve Board that drives up interest rates and produces a mild recession in the first part of 1998. That gets him a growth rate for the US that — you mentioned that he's a lone bear, or lone wolf. The 40 forecasters that the blue chip consensus, which is the principal survey of US forecasters — none of them has a growth rate as low as Mr Mullins for 1998, so he really is in the far extreme.

The other point I'd like to make, though: Certainly a slowdown of that magnitude in the US would have some impact. You should remember we built into our fiscal planning a provision of, at this point, a $650-million reserve to cope with unanticipated slowdown in the economy. That's enough to cope with about a 1.5% slower growth than we anticipate, if it were to happen.

Mr Mullins doesn't do a forecast for Ontario, but if you look at his Canadian data and look at 1997, which is stronger than our projection in 1998, together, he's talking about approximately 4% growth over those two years. Our underlying forecast would be a little less than 5.5% for Canada over the same period, so even if his scenario were to come true, we've got the caution built into our forecast to accommodate that kind of difference. While it's highly unlikely, we think we've prepared for that eventuality.

The Chair: We'll move to Mr Martin and the third party.

Mr Tony Martin (Sault Ste Marie): I was wondering if we were also going to get any information on the debt, a breakdown of the debt costs.

Mr Gourley: Yes, we will. Tomorrow's presentation will cover that in some detail: a financing plan, sources of financing, the denomination of our borrowing and so on. Mr Salerno will be presenting that tomorrow.

Mr Martin: So we will have a breakdown of the debt by issue and interest rate material.

Mr Gourley: Yes.

Mr Martin: Okay. I'd like to follow up on Mr Cordiano's line of questioning, maybe back up a little. It seems to me from what I've looked at, the improved revenue picture is partially a result of about $578 million from 1995 tax returns being posted this year. Is that correct?

0930

Mr Gourley: I'd like Mr Dorey to address that issue. It is in respect of 1995 collections, but there are other-year adjustments in there as well, so it think it bears some detailed explanation.

Mr Dorey: Each year, at the end of the year, you make either positive or negative adjustments for prior years. The $578 million is mostly associated with adjustments for 1995, but there are adjustments for previous years too. About $430 million, I think, is the number associated directly with 1995.

Mr Gourley: I'd just point out that we got into this discussion somewhat last time. It simply is a requirement of the Public Service Accounting and Auditing Board rules that even though we've taken in the money this year and even though we know a portion of it is attributable to the 1995 tax year and a portion of it is attributable to the 1994 tax year and so on, we have to record it as revenue in this particular fiscal year.

Even though the number, as you correctly point out, is $578 million, Mr Dorey has indicated that just over $430 million is actually attributable to the 1995 tax year. The federal government in its collections is constantly making adjustments and making settlements with individual taxpayers and therefore adjusting the collections data it has provided. They basically go through all returns once and say, based on that first pass-through, "This is what Ontario is entitled to," and then there are appeals and reviews and audits and so on that create differences. There are still, if you like, appeals being heard about 1993 taxation year, and their resolution resulted in this case in additional money for Ontario. As was pointed out last week, it could result in less money for Ontario, depending on what happens with individual taxpayers.

This is a constant feature every year, and next year at this time we'll be saying, "There are adjustments vis-à-vis 1996, some for 1995," because not all of 1995 is completed. Basically, they've just gone through 1995's returns once, as of today, and they're going to start getting through audits and appeals. So next year, we will have a mixture of three to four years of returns impacting on our revenues. This is just at the margin, remember. The basic data we receive in respect of the 1995 year, the year we're talking about — the numbers are the vast majority. It's just at the margin, but in this case the margin's a very big one: $570 million-plus.

Mr Dorey: To add just one more element of clarification there, when we come to the year-end, we have to make a judgement, given the amount of information we have from Revenue Canada and our desire to be cautious about how much provision we continue to keep for possible upward or downward adjustments. Once we have the final information — well, it's never final, but as final as it gets — in this case, we realized that the caution we had kept was probably excessive.

Mr Martin: All that being said, still, the very rosy picture the minister painted here last week was based on some money that was going to flow this year because of revenue generated back in 1995. The bottom line for a lot of us is that it seems the revenue generated, as presented by the minister, was not a reflection in any way of, for example, the tax break; that is, the impact on revenues this year was not as positive as it was because of the impact of the tax break or actually anything this government has done, but was a reflection of things that were already in place and happening. Would that be correct?

Mr Gourley: No, I don't think it would be, in the following sense: We did try to present and make sure that everyone was as clear as possible that a portion of the revenues we were reporting was one-time revenue we received in respect to prior years, but also that generally the Ontario base was underestimated in our projections, and therefore that base both for 1995 and subsequent years, 1996 and beyond, has to be increased to reflect that improved performance.

In respect of 1995, the actual 1995 data certainly contained the impact of the first step of the tax reduction; that was included in there. The strength of the economy and the positive picture that the minister presented was, I'll say, largely a reflection of the economic data Mr Dorey has just taken us through in his presentation, whether it be vis-à-vis housing or auto sales or consumer confidence or business confidence or business investment. All these signs are positive and therefore supportive of a positive outlook for the economy.

We did endeavour, in the material we provided to the committee, to be clear that the personal income tax revenue increase was made up of several components, one of which was an improved and improving economic performance of Ontario, but one of which was clearly one-time money that relates to audits and denied appeals for 1992 — a very tiny bit. We tried to be clear, and if we weren't that clear we certainly would want to make it clear to the committee today that some of those moneys were received on a one-time basis, but others were actually reflective of an increased base and therefore a greater revenue base on which to build our fiscal plan.

Mr Dorey: I'd like to make two quick points on that. One is that with respect to 1995, we obviously don't know — people file annual income tax returns, and we can't necessarily associate the revenue with particular parts of the year, but we do know that economic activity picked up quite sharply in the second half of 1995 and confidence rose, that obviously there had been a change at that point.

The other point is that revenues are up $1.5 billion. That includes significant increases in retail sales tax revenue, corporate income tax revenue, land transfer tax, tobacco tax. Across the board, revenues are up, and a large part of the increase in personal income tax is associated with 1995. Generally, revenues do reflect a strong economy.

The Chair: Thank you very much. We'll move to the government side.

Ms Isabel Bassett (St Andrew-St Patrick): Thanks, gentlemen, for your presentation. I was going to follow up on consumer confidence, which is so important to our recovery. You've touched on it in most of your answers, but could you put together the signs that make it obvious that consumer confidence is improving?

Also, I'd like to pick up on what Mr Dorey mentioned about computer sales not being factored into retail sales. I understand that retail sales would be far higher if you factored in computer sales, and retail sales are of course one sign that the economy is picking up.

Mr Gourley: In terms of the general situation with respect to consumer confidence, frankly I would link in business confidence, because to the extent that businesses are confident and increase investment in machinery and equipment — as in the non-residential construction data Mr Dorey presented, we see companies investing in plant expansion and refurbishing existing plants. What that means for individuals is obviously jobs and the prospect of jobs, which reflects again on consumer confidence.

Once you see that influence in the economy, you then say, what signs do we have? Steve took us through the housing starts, where developers are saying: "Now's the time. There is a market. There are people looking. We've got to get product on the market so we can take advantage of the people looking for new housing. We've got to get those houses in the market so that people who want to take advantage of the low interest rates, the most affordable housing index in decades, can be there."

0940

You see the market responding in terms of resales. You see our largest market, in Toronto, outstripping the rest of the province, saying that in this particular part of the province, there are very positive signs that can tend to influence behaviour in the rest of the province. How Toronto goes is a good signal to the rest of the province, and there will be an impact on confidence across the province in that.

Auto sales are another clear example. People are willing to invest in automobiles, to renew their automobiles. I happen to know of one individual who bought two new cars this year, saying that this is the time to do it, interest rates and in his case the age of his vehicles being a consideration.

I think all these factors are influencing consumer confidence. We see record business confidence, we see strong growth in several quarters on consumer confidence. I'll ask Steve to add to that.

Mr Dorey: The link to business confidence I think is important. We've seen the plans for business investment; we don't have the final numbers, but in plans for business investment for 1996, we see the first increase in investment in plant in five years. That's particularly important, because it's not just replacing old machinery and equipment that's wearing out; it's bringing new capacity to the province, which obviously creates jobs. The examples of Toyota and Honda and so on undertaking major expansions are signs of confidence.

That's tied to the conference board survey of business confidence which asked people, "Which province is the most desirable place to invest?" or "Where you intend to do most of your investment?" and "Ontario" was the answer to that question for 59%, which was a record level and clearly a sign that business is looking favourably upon the province at this point.

Mr Wayne Wettlaufer (Kitchener): I'd like to pick up on what you just said, Steve, about business confidence, that 59% would invest in Ontario. There are those of us on this committee, I dare say all on this side of the room, who believe that our government policies are responsible for the level of confidence. I wonder if you could comment on that.

Mr Dorey: It's difficult to isolate precisely what drives business confidence. For example, when you look at the international perspective on Ontario and on Canada, you can look at the macroeconomic policies of bringing deficits down and the impact that has on interest rates and so on, and that's obviously a major contributor to confidence. With respect to some of the institutional changes, whether it's red tape or labour law, in general the reaction seems to be quite positive. It's difficult to quantify that, but certainly we're seeing a pickup in both plant and equipment investment, so that would tend to support the view that those are positive.

Mr Wettlaufer: What about the way the foreign countries and the foreign investors view us?

Mr Dorey: That's obviously become much more positive. Major international investment houses like Goldman Sachs, for example, when they look at how the outlook for Canada compares to other G-7 countries, in their latest publication you can go down the list of indicators comparing Canada to the G-7 countries, and for both 1997 and 1998 Canada ranks number one in terms of output growth, industrial production growth, job growth, the largest decline in unemployment rates, the lowest deficit-to-GDP ratio, the biggest improvement in debt, the strongest consumer spending in 1997 and second to Japan in 1998, the strongest investment. It's right down the list. Those things go together, and they indicate the view of that one particular company, a view generally shared by the investment community at this point.

Mr Wettlaufer: And we're still the province that drives the national economy.

Mr Dorey: That's right.

The Chair: Thank you very much. We'll go back to the official opposition. Mr Kwinter, four minutes will use up the hour.

Mr Monte Kwinter (Wilson Heights): I want to talk about Ontario's relative position, just talking about how Canada is perceived in the G-7. When you take a look at the debt of Ontario, notwithstanding the reduction in deficits over the last three or four years, over the next four years the debt of Ontario is probably going to reach about $120 billion. Would you say that's about the right

number? It's $102 billion now, and it's probably going to increase by —

Mr Gourley: The number given that the government meets its target and doesn't overachieve beyond that, which it already has, in terms of its deficit reduction plan would be more on the order of $115 billion rather than $120 billion. The $120-billion figure was making certain assumptions, but obviously the government has announced a $500-million improvement in the deficit this year, lower than its targets. But the $115-billion number assumes that the government meets its targets and does not use the reserve which Mr Dorey referred to, the $650 million.

If you take today's debt and add the targets less the reserve for each year and assume that is the only improvement that the government makes each year, not to use the economic reserve, you get in the order of $114 billion or $115 billion as to where the debt would be.

Mr Kwinter: Right now the debt of Ontario is about 31% of GDP. Is that a figure that you agree with?

Mr Dorey: It sounds about right. GDP is a little over 300, so that sounds about right.

Mr Kwinter: And it uses up about 17% of our revenues just to service that debt. The point I am trying to make is that this year you had sort of a windfall, and the government is taking credit for it. You have a $400-million stabilization fund payment that is going to terminate this year; you are not going to get that again. You had a $195-million benefit from the interest rate. I'm sure the government wants to take credit for greater corporate income tax revenues, but they get reported — that was certainly a year or maybe a year and a half before that, depending on the fiscal year-ends of various corporations that report their profits.

My concern is that this year everything went right for the government, and that's great; you have to take the good with the bad, and if you're lucky enough to have that happen to you, that's fine. But what happens next year if Mark Mullins is right, and I'm not saying he is, but if he is? You don't have the $400 million. Your interest rates go up somewhat. You've had an increase in operating expenses this year, for a government that prides itself on cutting, of about $218 million. When you add up all those numbers, the rosiness of the picture isn't quite there. Do you agree with that, or do you feel that isn't the case?

Mr Gourley: I actually don't agree with it, on the following basis. What we have tried to do, and I can't emphasize this enough, is to ensure we have a fiscal plan that is achievable, that when we do our projections — not our forecasts for the economy but our projections of economic performance that will support the fiscal plan — we are on the prudent and cautious side. So it's not a rosy outlook, it's not an optimistic outlook that we're using for Ontario's economic performance. There are all sorts of signs that would, I'll say, encourage me as a planner to say I think we're being too cautious. I think we're being overly pessimistic about Ontario's economy.

The best measure we have is what other people are saying, and Steve read off what Goldman Sachs is saying about Canada relative to the other G-7 countries. If you look at every forecaster who does an Ontario forecast relative to Canadian performances, Ontario in their view is leading, is outperforming the rest of Canada in almost all the major indicators. So I view that as optimistic, perhaps rosy, on the one hand, but that will not be the basis for our fiscal plan projections. Our fiscal plan projections will be: "That's very nice that Ontario is going to lead. Thank you very much. However, we're going to take some caution and introduce it in there, significant caution." In the budget this year, we had interest rate forecasts that were basically 100 basis points below most forecasters' view of where interest rates were going. We had a Canadian dollar that was higher in our assessment and projection of where exports were going than most forecasters.

What we're seeing is that that approach is paying off, and we will continue that approach, so we don't see the numbers you were citing of one-time payments that are stopping this year and, say, corporate income tax revenues that may change next year. Those phenomena happen every year and on the base of revenue that we have, I don't see them as being major contributors to a less than prudent and cautious but overall positive view of the Ontario economy and of our fiscal plan. It's still very achievable and still quite attainable, particularly when we get this compounding of caution.

0950

We have other people saying we're going to outperform. We say, "No, no, that's fine." We're going to take a notch below that and then we're going to say, "Let's have this prudent and cautious approach, compounded or supplemented by $650 million," which means we can lose 12% of our corporate income tax revenue and still achieve our plan; we can lose 7% of our retail sales tax and still achieve our plan; we can have interest rates higher than we've forecast and still achieve our plan. The $650 million is a very significant cushion, and as the minister has said, in this year we don't expect to use any of it.

Mr Martin: Just a couple of questions on your medium-term fiscal plan: What are the revenue numbers you expect for next year?

Mr Gourley: We're going to be presenting those in the budget. The fiscal plan forecast, that's what we will be doing in the budget. So we were reporting on this year's performance.

Mr Martin: So you wouldn't be able to comment then either on the expected growth in personal income tax for 1997-98.

Mr Gourley: Not at this stage.

Mr Martin: Nor would you be able to comment on, I suppose, how much we expect to lose by way of the next stage of the tax cut implementation.

Mr Gourley: No, the decisions on the future tax reductions have not actually been made. There have obviously been a number of statements that the government intends to implement its full tax reduction program, but how that's implemented is still to be decided, whether it's all at once or spread out over a period of time. Different staging of it is quite possible and that will influence the revenue forecast.

Mr Martin: Okay. We had a bit of a discussion here this morning, I think stimulated somewhat by the Midland

Walwyn report. How much growth do we expect in the next year? I guess there are differing opinions on that.

Mr Gourley: Yes. If one were to say that one wanted to take the opinion of one of 30 or 40 major forecasters and thereby build a fiscal plan, then one might choose an even more cautious approach than has been projected. The government could have obviously implemented the entire tax reduction commitment in the very first year. It chose not to do that. It chose to provide a balance of 10 tax reductions in combination with expenditure reductions, and I'm sure it will have the opportunity, as we go through the budget-setting process, to hear views on how it should proceed with the balance of its commitment.

Mr Martin: Last week the minister presented a very positive statement here based on revenue they received, a big chunk of it at one time because of the way that's reported, and an economy that was better than perhaps expected because, as we were presented, interest rates were low and that stimulates the economy. That causes people to go out and buy, particularly in the housing market, I would suggest.

A number of other factors came together, fortunately — the level of the dollar. All of this is stuff that we as a province don't have much control over; it's controlled primarily by the federal government. All of those pieces came together to be very helpful. Would it be fair to say that the government, and perhaps yourselves, are sitting now with your fingers crossed under the counter, hoping those pieces continue to be that positive into next year; that in fact there really isn't much activity happening in the Ontario government except a cutting of taxes and a cutting of revenue to improve the economy of Ontario and that you're hoping we will still continue to ride the crest of a little bit of a wave that's happening right now, and that if that wave should collapse, as is predicted by this fellow from Midland Walwyn, a lot of people in this province could be hurt?

Mr Gourley: I think it's important to emphasize that in our revenue forecast we are obviously going to take out from our future forecast any one-time moneys we have received this year as adjustments and are not going to put in provision for one-time adjustments next year, although we could do that. But the prudent and cautious approach says: Wait until you see that adjustment. If Ontario outperforms the rest of Canada, if the incomes that people are earning in Ontario are by and large higher and therefore the personal income tax collections are by and large higher than were projected in our base, that will be good for us. We will wait until we see proof of that in the actual returns as reported to us by Revenue Canada.

I have to admit that I don't have my fingers crossed below the table or above the table, and that is because we have adopted this approach which allows me to say with a great deal of confidence that the plans the government put forward in the fiscal plan are achievable.

In terms of the control and the influence, the Ontario government's fiscal policy and the coincidence, the consistency of our policies with those of the federal government and every jurisdiction in Canada is phenomenal and is remarked upon when we go to foreign jurisdictions and talk to foreign investors. They understand that Canada — the federal government and all of the provinces — has its act together vis-à-vis a fiscal policy. This means good things for Ontario, so that if the Ontario government were out of step with the rest of Canada, we would have a serious problem. But we don't have that serious problem, and because we don't have that serious problem, interest rates are lower. If we were out of phase with the federal government, in my view interest rates would be higher. Therefore, I would argue that the behaviour of the Ontario government and its policies do influence people's attitudes and their confidence in both the Ontario economy and the Canadian economy.

Mr Gerry Martiniuk (Cambridge): Mr Gourley, we have a very optimistic statement. Things are happening. However, we seem to have a lag in unemployment rates. They stay stagnant or even go up a bit, and yet we know we're creating jobs. Could you comment on any lag times and what this government is doing to create jobs in Ontario?

Mr Gourley: I think the presentation indicated 90,000 net new jobs created in the private sector, with a loss of 10,000 jobs in the government sector, which I think everybody would expect; that is to say, the loss. We also talked about the fact that we see, I'll say, a lag in people's behaviour in that the labour force grew greater than we expected it to grow. In part, that's in response to people saying: "There are jobs being created. There are jobs for me. I heard my friend got a job. I want a job."

So 107,000 new people came into the labour force looking for those jobs. I view that as a lag, and as we pointed out last week, as a result of more people coming into the labour force looking for jobs than actually found jobs in the form of the 90,000 created in the private sector, the net 80,000 new jobs, we had 27,000 people who did not find jobs but are still looking for jobs, a sign of hope for them, and as a result the unemployment rate went up from 8.9% to 9.1%.

Now, the irony is that in the most recent job figures we have for Ontario, even though Ontario lost, on the three-month rolling average basis, 5,000 jobs, the unemployment rate actually went down because of the change in the labour force. We see what might be otherwise a positive statistic, but from my point of view I would like to see more people looking for jobs, which is reflective of the confidence individuals should have in the Ontario economy.

1000

We have certainly a lag. People's confidence is something that is built up over time. It doesn't change instantaneously because the Leafs — well, I should say if they make the playoffs, as opposed to winning the Stanley Cup. People's confidence is going to be influenced by any number of factors, not the least of which is whether positive signs continue to come from the economy. If positive signs don't continue to come from the economy, people's growing confidence will begin to dampen.

What we've seen is several quarters in a row, I think it's six, in which the consumer confidence has increased. That's very good for Ontario. With that kind of sustained increase in confidence we will see much more by way of

direct and concrete results in terms of both the housing starts and auto sales we've seen.

We need not only positive developments; we need sustained positive developments. The best kind are steady, small improvements. They don't need to be dramatic, because if you have dramatic ups, quite often you have dramatic downs, and that's not good. What you want is a nice, steady growth in the economy and in the prospects of people. I, at least, for one, find any time you see a dramatic change, you then have to worry, because of experience, about when that dramatic positive is going to turn around and become a dramatic down in a short term.

If it builds up over time, a year or a two, then I think that's a much more sustainable approach, a much more positive development for Ontario's economy, a much better indication of the strength of Ontario's economy, and therefore I think we will see it reflected in a generalized behaviour. There are not enough people who are feeling confident enough now, as reflected in consumer consumption. Growth is only 0.5%, whereas auto sales are up substantially, as are housing sales and so on.

The Chair: Thank you very much, Mr Gourley. I appreciate your coming back to appear before us today. We look forward to the third instalment, tomorrow morning.

MICHAEL MANFORD

The Chair: We welcome at this time Mr Michael Manford, who is the chief economist with ScotiaMcLeod. Welcome to the standing committee on finance and economic affairs. Your being an expert witness, we have one hour to spend together. If you would like to make a presentation, we will then go into a round of questions from the three parties.

Mr Michael Manford: Thank you very much for inviting me to come today. I brought with me a little package that I'm going to refer to in a minute, but if I may, I'd like to address a little bit of the view that was put forward about a recession occurring in the United States and talk about something very different. But first maybe I will just set the global stage here because I think that as we go planning the future we all need to realize that the world is a very different place than it was 10 years ago.

We sit here in the midst of a massive global restructuring which is hitting every economy we can look at. In fact, I was just recently in Germany and was absolutely puzzled at the fact that they are still debating whether they have to restructure or not. My comment was that they'd better learn from North America. Everywhere in the world we are seeing a very similar pattern, and that is that after the last 10-year business cycle we had every economy, including the vaunted Japanese economy and the German economy, had built up enormous stocks of, shall we say, unwanted labour.

All governments basically, when we look globally, did the same thing, and that was that they did not see the slowdown in global economic activity coming. They got caught with huge deficits and have been trying, especially in the last few years, to continually cut back spending but also raise taxes. The result has been, if you look at Germany as a prime example, that an economy that was just absolutely on fire three years ago with its unification is now crawling. Real growth in Germany might get to 1.5%, if they're very lucky. France, the same situation.

Looking at Europe as a whole, France has restructured. Actually, they are in one of the best-looking economies in the G-7 right now, which has the Germans rather upset. The issue really comes down to: The engine behind Europe as we know it is Germany, and Germany, in our mind, is where Canada was in 1989. It is going to, at least in our view, take another three years to restructure, and it's going to be slow progress. Wage rates have started to slow down; they're running at about 2.5%, which has the Bundesbank very heartened.

Again, the problem is going to be that German industry has a tremendous number of people to lay off. Just look at the layoffs at Daimler-Benz as an example. The German fiscal area is slowing. The German improvement certainly has slowed down; their economy, especially the tax base, is not growing. This is again a symptom, and I want to bring this back to Canada and look at these charts. I think it's interesting to look at the rest of the world first.

The only country in Europe that is really going anywhere — the UK will get very upset that I've made it part of Europe — is the UK, a restructured economy that has gone through the pain, has gone through the cutbacks, has gone through the corporate restructuring and has a nice little recovery going. It looks like it's going to grow about 2.5% per year forever, the way it's going. It's a nice, balanced recovery. It's a lesson that is going to come back to Canada, that the one economy in Europe doing well is the UK. They maybe have a little bit of an inflation problem; they've had to raise interest rates and they will probably will do it again, but it's a nice problem to have compared to what's going on in continental Europe.

When we in Canada look at these countries, the one thing we have to remember is that 43% of the GDP of this country is tied up in exports. Sure, 85% of them go to the United States, but the influence of the global recovery on the United States is also large. Their export growth has gone from — when I went to school it was 3% of the GNP; it's now 12%. It's become very important.

Let me just talk to the point: I think when we're all looking for the magic European economic recovery, it isn't there yet and it won't be there probably for another two years. You're going to be looking at tortuously slow growth. Just jumping across the world to the other side, the other area is to look at Asia, because there again is a very different country. Japan, the star of the 1970s and the 1980s, the place Canada was looking to for great things in terms of real trade export potential, has become a mature economy. They are through their financial depression which was caused by the real state collapse and the problems the banking system had. Their banking system is still very fragile, as witnessed by the fact that the Bank of Japan continues to pump money into the economy at what most people would call an outrageous level, yet inflation in Japan is extremely well controlled.

The problem for us is going to be that Japan is now also in need of restructuring. The estimates are — I've looked at this and I think they may be a little high — that they need to shed one third of their white-collar labour force in the next business cycle, which is an enormous hit by anybody's measure. When we look at Japan too as a trading partner or as an influence on the United States, which is our major trading partner, what I see is 3% real growth, which by our measure looks pretty good but which by Japanese measure is very substandard. When we look around the world at potential trading partners, the Chinese trade has slowed down because of technical and other problems. Most important, for basically the US and us, the Seven Tigers, led by Korea, seem to again be going through restructuring. In fact, if you've looked recently at the news, the demonstrations going on in Korea are all about job cutbacks and who's going to be allowed to scale back on what in benefits and job security — from an economy that was one of the stars of the rapid-growth phase.

1010

That leaves us with a world that, instead of being able to grow at 5% or 6% and drive US and world trade at huge levels, is a world that grows at 2% or 3%. There is one huge — and I would underline the word "huge" — outlier in this whole story, and that's the United States. A recent article I saw in the paper about the US having a recession I think links back to the fact that a year ago the consensus forecast for the United States had it at 1.8% to 2% by the end of last year. The US economy grew at 4.7% in the fourth quarter, and the first quarter looks very strong too.

Since 85% of our exports go to the United States, let me spend a little bit of time on what we see in the US. What I see is a very powerful, broad-based sustainable recovery that is surprising even the bulls. Let me be very brief.

US export growth is running at about 8% year over year in real terms, driven by their largest trading partner, Canada. The Latin American component, which is about 30% of their trade, has picked up as things have stabilized and picked up, especially led by Argentina, while the Seven Tigers, as I mentioned, have picked up and they do a tremendous amount of business with the US. I think that will get stronger. We saw a huge increase in net trade towards the end of last year which we think will continue through this year and add as much as half a per cent growth to the US economy.

The other thing that is very interesting to us in the US is that they are in a phase of what I call overinvesting. The US underinvested for a period of about 10 years, and over the last five years we have seen investment spending as a per cent of GNP. This hit record highs. The US is using technology, they're using computers and new equipment (1) to avoid hiring new people, which is legitimate, but (2) to beat the daylights out of the world trade community. The US has gained markedly when we look at world trade.

Finally you have to talk about the consumer. Everybody points to the consumer's debt load; everybody points to the low saving rate. Let me point instead to the employment record of the United States. Employment in the US is at almost 2.5% growth year over year. These are full-time, good-quality jobs, and the service sector, where they are, is in the high-paid area, especially in technology areas.

Our real wages in the US have been growing for years. They're up about 1% as average real earnings take-home pay. Add the two together and you're close to about 3% real income growth in the United States. While I think the saving rate in the United States, which is currently about 5.4%, will work its way up to roughly 6% at the end of the year, it still doesn't stop consumer spending from growing about 3%. When I look at this economy, I look at an economy that is winning on the trade side, that is seeing tremendous investment growth and is also now beginning to see the consumer just consistently be there. Consumer spending rose 3.5% in the fourth quarter. The early numbers in the first quarter look excellent.

I don't think this is an economy that has a problem. The problem it has is whether it's going to generate inflation. It's been growing for a long time. Unemployment in the US is at an enviable 5.2%, depending which number you look at. They're running out of labour. They're beginning to see wage rates pick up. I think the issue is going to be whether the Federal Reserve Board needs to raise interest rates. Our view is that they will raise rates three to four times this year, probably by 75 to 100 basis points.

Where I vehemently disagree with the article in the paper about a recession is that this is not enough to create a recession. It's enough to knock a point to 1.5 points off the growth rate of the US economy, be sure about that, which is exactly what the Federal Reserve Board wants. What I think you're looking at is a midcourse correction. We think interest rates will rise fairly dramatically, maybe 75 basis points, maybe in three months. Then as the economy begins to slow down to about 2%, I think Alan Greenspan will start dropping rates, and that's the key here.

The last time we had a recession in the United States they raised rates 350 basis points, 3.5 points, not 75; 75 is simply not enough to do it. So we're looking for a very powerful economy.

What I'd like to do now is maybe turn to some of the charts I have in here and just basically look at the first chart, which is the total government deficit, all levels, everybody included. This is just dollars and billions. I'd ask you a question: Name me a country that has cleaned up its fiscal act this fast. People will say New Zealand. Wrong. Canada has cleaned it up faster. I took this chart over to the UK recently and to Germany and to the United States. Eyebrows go up when I throw it up on the wall through the projector and say that progress has been huge. Everybody says: "Sure, but how did you do it? How is the average person in Canada preparing for this?" The average person is the tax base of the Ontario government.

Let me look at the next chart. The problem we have had in this country is that the average person who's had a job all the way through this business cycle has been through three and a half years of negative real income growth. Income per capita, which I'll show you in a minute, has stalled out. Part of the problem, admittedly,

is that the fiscal drag the country has used to get its government deficits down obviously has an impact on this area.

Canadian consumers are tapped. We are not going to see Canadian consumers using up their balance sheets to help support spending. Their saving rate is too low. We think it must rise by a point in the next 12 months.

The debt load looks high, but luckily Mr Thiessen has given us a break on interest rates, and what we're actually paying on that mountain of debt is lower than it was in 1989, which is small comfort.

But the real issue in Canada, I think, if you look at this next chart, is to say that since 1990 we have not seen real income per person employed increasing. This is how Canada has restructured. This is how Canada has managed to have the slowest unit-labour-cost growth of any G-7 country. It's done it at the expense of the consumer. When you look at the fundamentals of economics, it's the only group large enough that was ever going to pay for this.

I see this year the metamorphosis of the Canadian consumer. This is why I really differ from the consensus forecast. I picked up my Statistics Canada Daily the other day and I noticed that weekly earnings in this country were up by 4.3% in the last 12 months. Admittedly a lot of that is overtime, but that means the average worker out there now has 4.3% more money in his jeans than he did a year ago. The inflation rate is only 2%. So that three and a half years of negative real income growth has come to an end.

The other thing that's happening — and I just caught the tail end of the last conversation — is that we are seeing an interesting job market. We've generated a tremendous number of full-time, high-quality jobs. We've been swapping some of those for part-time jobs and we're still going through government layoffs. Our estimates are that there are probably another 25,000 to 50,000 in total, which would bring the total up to about 400,000 people, if my memory serves me right. Let me put that in perspective: That would be like wiping four million people off the US employment rolls. It's a huge number. That peak is being hit. We think by May or June we will probably be beyond it.

The important thing for Canada is, with the US growing — US industrial production growth is up by about 4.5%; we think it will hit 6% by the spring — that is the driving force behind Canada's exports. We're looking for Canadian exports to be up somewhere around 15% this year. That's 43% of the Canadian economy going into launch mode.

Let me flip over two charts and just look at the investment spending. The other wave that's beginning to hit Canada is two things. One is that if it moves in this country, we're restructuring it. We're seeing a huge amount of investment spending in machinery and equipment in this country that has just produced galloping productivity growth.

Also what we're now beginning to see is foreign investment. Foreign-directed investment in this country is up about 20% from the lowest. We think it will expand dramatically in the next 12 months, because the US is effectively out of labour and when they run out of labour they discover Canada. Especially they seem to have discovered Ontario and BC recently. A lot of that is in the high-tech area, which is interesting. So what we would be looking for is Canada to go into this over-investment mode too.

That and the fact that we're short of inventories, we suggest, will probably drive employment in the private sector up by about 3% this year; a little slow in the first part of the year, gaining force as we go through.

By the time I get to the end of the year, I can look at a consumer whose real income last year was up by 0.6%, which is why there were very few retail sales, and I think by the end of this year can be up around 3%. All of a sudden, I'm talking about a very different consumer.

Does the central bank tighten right away to stop all our good fun? The answer is no. In fact, I would think the central bank in this country will skip the first two moves by the Fed. Inflation in Canada is very well controlled. The recovery domestically is six months old. There is no reason to nip it in the bud. The Canadian dollar will probably do the bank's tightening for it, because we think the dollar will still rise. The Canadian dollar is 15% undervalued. We think it will end the year 10% undervalued, which is not a huge crimp on our exporting abilities.

I guess what I'm saying is describing to you an economy that is in what I would call the payoff mode for the grief of the last five years. We have very low inflation. We're enjoying very low interest rates. We're finally beginning to see the consumer get his share, if you want, of the pie as we begin to get this recovery more into the domestic sector.

1020

Finally, on the last chart here, we're seeing the impact in terms of financial markets and the credibility that is being lent to Canada. I always gauge this by how many people show up to lunch when I go to London, England. It's either 100 or 12. The last time we had 60. There is a lot of interest in Canada. The story about Canada's fiscal responsibility is there, the story about Canada's ability to clean up its act is there and the payoff is there.

I looked at my screen just before I came and I noticed that 10-year Canadian bonds are now yielding nine basis points below the United States. They were yielding 190 basis points above the United States several years ago. If you look at the spread between Ontario bonds and government bonds, the same thing has happened. There's been a huge compression that is a payoff.

Before I get too bullish on the payoffs, let me leave you with three things that I think are extremely important. I've talked to many foreign investors who still own 39% of Canada's debt, and they are focused almost exclusively on spending. They want to see spending cuts. They want to see spending decline. It is their main knock basically of the federal government so far.

Second is that this has become a very competitive world. Whatever fiscal policies we set, whatever industrial changes we make in budgets, we have to be very aware of the effect of that on competitiveness, especially in a free trade world as we begin to open up more and more. Being mercantilistish, if you want, in this sort of world is a very good thing to be, just practically.

The final piece of the puzzle is — go back to the first chart — we've come a long way but we still have a massive debt load in this country. The debt-to-GDP ratio may get down to 60%, which is the Maastricht number, in three years, but the process requires that we stick to it. I think a lot of talk has been made about Canada having room to give money back to the consumer at the federal level. I think you're going to find that what the foreign investors want and what the capital markets want and what the people who are going to buy our bonds want is for us to keep at it. Yes, we've come a long way, but we have a long way to go.

My only other comment is that if we do have a recession — and I do not expect one probably before the year 2000, and maybe even later than that depending on how clever the Fed is in the US — government deficits double in recessions. The problem is going to be that we want to start from the lowest base we can. I think from the point of view of the capital markets, everybody is very pleased with Canada, but they're also keeping a very close eye on what we do.

I think that was my 20 minutes.

The Chair: We'll move into a question period, starting with the third party in rotation. Maybe we could have five-minute rounds; we'll probably have two of them if we can stay within our five-minute limit.

Mr Martin: I certainly found everything you had to say very interesting and enlightening. I'm buoyed by the projections and the forecasting that we are, as a jurisdiction and a country, in fairly good shape, with an economy that is looked at by the world as strong and having potential. That's all good. You talk about the bond traders and the people who own our debt and the impact of a global economy and free trade and all of that on everything that we do.

I guess what concerns me, and perhaps you can help me understand more fully how it connects, is the impact of this drive to clear off debt so quickly and to generate an economy that, by your own admission, I think — and you can comment on this when you answer — that large corporations are investing in and generating more profit. A lot of that is based on getting into new technologies, which means getting out of the employment field in ways that are quite significant. You'll know that even though Britain is doing well right now, according to yourself and its economy, they're about to turf their government, and that's not for no good reason.

I guess the question I have of you is, how does all this play out in the lives of ordinary Ontario citizens, people who want jobs, people who are concerned right now about the future as it unfolds for their children, about the quality of our health care, which is being diminished as we speak, and the fact that communities such as — I'll just give you two because they're the numbers I have in front of me right now. North Bay stands to lose up to 852 jobs by way of the downsizing in government. That's not a very big community; 852 jobs are a lot of jobs and that will have a tremendously negative impact, in my mind, on the economy of that community and contribute to some significant impact on the economy of Ontario.

The Chair: Would you get to the question, Mr Martin, please.

Mr Martin: If you'd just let me do this, I will get there. You've done this to me before.

The Chair: We have five minutes.

Mr Martin: Yes, that's fine.

The Chair: We're going to stay on time. If you stay within your five minutes, you'll get to ask the question; if you don't, you'll be cut off. I just wanted to warn you on that.

Mr Martin: That doesn't surprise me.

We also look at what's happening in my own community of Sault Ste Marie, where a study that the Economic Development Corp, the chamber of commerce and the labour council had done projects, even with the cuts and with the tax break, that we will end up at the end of the day probably about 1,700 jobs down. Have you factored that in and the impact that will have? What can we expect will happen in that area as life unfolds?

Mr Manford: I think the problem we're all having is that when you look at the reality of economics, and there is some reality, it is that we spent 15 years getting this country and this economy completely out of line in competitiveness and everything else. The cost of restructuring has been large, there's no doubt about it, and the cost is still there. I think what we're now beginning to see is that the cost/benefits are shifting towards the benefit side of things.

Admittedly that chart I showed you on real income per person employed indicates that we've had a tough five years, but the payoffs I think are just starting to hit us now. We're still going to see government layoffs. As I said before, we expect between 25,000 and 50,000 to be lost, but we expect the economy to add a lot more because of the export growth that we're getting out of the US. The fact that Canada has had the slowest unit-labour-cost growth of any country in G-7 for six years running means that we have now turned this economy from what I would call in 1989 fat, lazy and overpaid to a very lean and mean machine which is starting to generate some high-quality jobs.

In my opening remarks I was trying to drive home that this is not the economy of the 1970s or 1980s, globally. Everybody is facing the same problem, and that is that we ran our debt levels so high that we simply did not have the ability — and the federal government is a prime example of this. They are actually running an operational surplus and yet they're running a deficit, and the difference is interest payments. That's why it's so crucial to get the debt down. It's to give us the degree of freedom so the next time we hit a recession we've got a surplus to dig into. We can go back to the old style of policy: You put money away for the tough times.

The trouble we're having is that it's been a very hard road, but it's a road that we just had to take. We had no choice. We would have lost more jobs and our children would have been in much worse shape if we had not gone through this package.

What I also would say to you is that one of the reasons there's been such a loud cry for tax cuts is that basically we have aimed all of the policy of the country — I don't just mean Ontario, I mean all of the policy of the country — at one group of people, and that's the consumers. At one point in time fiscal drag, that wonderful combina-

tion of tax increases and spending cuts, hit 5% of personal income. That's too high. It's been reduced, thanks to the tax cut in Ontario and elsewhere, and it will be reduced in the future, but it must be.

1030

Part of what's really hurting the economy is that tax rates in this country are too high. I've looked at Germany, I've looked at the UK examples, the US examples, and I've looked at Canada too. What I find is that when governments run their top marginal rates at about 44%, they start slowing the economy down. I think that's part of the problem that we have in this country, and you cannot fault any single government for this. I want to be very careful about that. But in total we really loaded the fiscal drag in this economy. The UK hit a peak of 3% of income; we hit 5%. That's why I think the tax cuts as they go through, and hopefully at some point in time also out of the federal government, are important to get at some of the problems you're looking at, because consumers are two thirds of the GNP. If anybody's going to drive this economy, it's going to be you and I as consumers.

Mr Douglas B. Ford (Etobicoke-Humber): Looking down here, I've got just a few questions myself. How do we keep control of this fiscal policy? From the federal and provincial governments it's a rosy picture now, but it's like a beauty contest: They have a different winner every year. I always have that expression that every economy gets its turn off the bat. We've seen the Germans, we've seen the Japanese, and now the Americans are back in ring condition. We're still struggling here but we're back in condition too and we're trimming down. But how we do keep those spenders in line in the governments?

Mr Manford: That's an excellent question. If you look back in history, these things move in 20-year cycles. You tend to spend five years getting good, you get three years to five years of good times, and then you start giving it away.

The answer, and this is my personal view of this, is that things like balanced budget amendments don't work. The Gramm-Rudman rules in the United States — remember them? — didn't work, the balanced budget amendment won't. But I think the realization is that what fiscal policy should be doing is acting as a mild break to the economy in the good times by building up surpluses, especially in this country with so much of our GDP tied up in exports to the United States. An accident in the United States is an accident in Canada. Then you use the surplus to avoid a recession, as the federal government did in fact in 1974, which was the last time we could do this. Statistics Canada tells us, although I lived through it and I still don't believe it, that there was no recession in that period, even though the United States had a pretty serious recession.

What we need to do is remember that first of all we have to get to a balanced budget, then we have to start paying down some of that debt, and then we need to realize that there is a time for fiscal policy to step in. There's nothing wrong with governments running surpluses in the last phase of a business cycle, because it acts as a brake and it helps the Bank of Canada. There's a concert here. What I just described to you is old-fashioned Keynesian economics from what we all learned in the textbooks. But you know what? It works.

Mr Ford: I concern myself sometimes with the Fortune 500, different things, that Canada or Toronto is the best place in the world. I'm frightened of that because people get overconfident, they get caught in. They sit on their backsides and they don't want to move any more. They think, "We're the greatest." But it's, like I said, a beauty contest: You win one year and you may slide behind the next year. You don't win two beauty contests in a row. The same with the economy. You've got to keep a tight fiscal budget all the time so that you get the thing down to a rock-bottom, hard surface, like they did in Germany for a long time, and in Japan. Now they've let the cat out of the bag.

This is what I'm concerned with. All these glowing reports are great, but we still have that massive debt, like you mentioned, behind us. If we could get rid of that and we have the same glowing reports, happy days are here again. That's all I'm saying.

Mr E.J. Douglas Rollins (Quinte): Thanks for your view on things. I know you told us that it took us 15 years to get into the position that we are in. Do you predict it's going to take us 15 years to get to that point when we don't have a mortgage?

Mr Manford: Actually, I think that what we're going to be looking at is it took us basically 15 years to give it away. That was 1989. It's taken us five years to get back to being a lean, mean machine. My suspicion is, and I've written about this in the past, that we've paid such a huge price for this restructuring that it's going to be remembered for a long time. The history of these things is that the good times, if you want to call them that, last five years and up to 10 years.

If you look at the New Zealand situation as an example of winning and keeping control over deficits — I was at the New Zealand Web site on the Internet the other day and they actually have a tax cut calculator in there. You can figure out how much the next tax cut is going to save you. It's an economy and the way they kept control over it was they did the tough things. They cut back and then they cut taxes.

I think that's the key to keeping the good times rolling, if you want to come back to your questions. It's basically that we now have to work on making the government sector smaller and the private sector bigger and aiming our policy — I said this earlier but it's very important — at not harming the competitiveness of this country, because it's been hard won. I think that's the answer to both your questions. I think it will go five years. Canada is gaining enormous market share in the world. The problem is going to be eventually the Canadian dollar is going to go up and take some of that away from us because we're almost getting too good. But I think that the answer is five years of good times.

Mr Rollins: Our whole problem isn't solved just because we have a balanced budget. I think some people believe that the minute the budget is balanced then we're into good times again. We're into better times, but we still haven't paid off the mortgage.

Mr Manford: You're very right. By balancing the budgets, we give ourselves a level of stability. By paying off the debt, we give ourselves the freedom to basically run our country on our own. The biggest problem we see in this country at this point is still the 39% of our debt that's held offshore, which means that while we don't necessarily need the foreigner to buy a lot of our bonds, we still need that foreigner to keep the bonds that he has, and that means we've got to watch our fiscal situation.

The Chair: If we could move to the official opposition.

Mr Kwinter: Thank you, Mr Manford. If I could just get to the first chart you provided, could you just explain to me what that is again? It seems obvious, but I have a reason for asking you that.

Mr Manford: It's Statistics Canada's measure of the total government deficit in this country, all levels, on a national accounts basis.

Mr Kwinter: According to this the total deficit is just over $10 billion.

Mr Manford: It's $11.4 billion, yes.

Mr Kwinter: How can that be, when I have a chart here that says that the total deficit of everybody, 1996-97, is $33 billion? I'll show you how that's made up. You've got Ontario at $8.173 billion, you've got Quebec at $3.275 billion and you've got the feds at $24 billion. How does that add up?

Mr Manford: Because you're looking at different — this is one the great problems we always have. This is a national accounts concept. It's consistent with the GDP numbers that come out and it's by United Nations treaty measured in that way. The numbers you were mentioning are what are known as the budgetary deficits, which are higher.

The total borrowing requirements, net requirements, in this country are running very much in line with this kind of trend and the difference is, as always, there are three different sets of books in the country, the national accounts, the public accounts and the budgetary deficits, and none of them agrees. This is the StatsCan measure. It's just a good indication because it's consistent right across the place. This also includes the surpluses that are being run in the other levels of government, including some of the municipalities, at least on this basis.

1040

Mr Kwinter: I don't want to belabour this, but what is the deficit of the province of Ontario under your terms?

Mr Manford: The number you mentioned is the budgetary deficit, but on the national accounts basis the government sector as a whole, the others, other than the feds, are actually at surplus and that's why this number's lower.

Mr Cordiano: What is it for Ontario?

Mr Manford: In here they don't measure it, but the budgetary number is the number that you'd go to as a guide. You don't have a national accounts deficit for Ontario. They don't publish it anyway. I've never seen it. This is one of the big problems with economics. We've got different books.

Mr Kwinter: Something is not right. We have the treasurer of Ontario coming to us and showing us that the deficit of Ontario is $8.173 billion. That's his number. He doesn't say this is the number. We have revenues of X, we have expenditures of Y, the shortfall is $8.173 billion. We have the province of Quebec coming to us and saying, "This year we are going to have revenues that are short of our expenditures by $3.275 billion," and we have the federal government coming to us and saying, "We have revenues that are going to be short of our expenditures by $24.275 billion." Just those three jurisdictions happen to be the only three that are having deficits that total $33 billion. I don't understand how you could possibly under any definition say that isn't the number.

Mr Manford: The point behind this is that I'm not saying that, Statistics Canada is. This has always been a problem. But let me put it in another way that would relate back to your numbers but still relate to the progress. The peak level of borrowing requirements in this country was hit back in 1992 at $108 billion. The number is now in the mid-thirties and that indicates that whatever measure you're using, the improvement is there. There is always a difference and this is always going to be a problem.

No matter which deficit number you look at, as I said, there are three legitimate ways of measuring the deficit. This is StatsCan's way of doing it. It's the same way it is done in France, Germany and other places on a national accounts basis. There's a budgetary deficit, the numbers you were talking about, and the federal government also has a set of public sector accounts, which is a completely different set of books.

This is one of the issues that we get at with the United States. The United States has the same problem. Their government deficit is running about $100 billion and their borrowing requirement is running about $167 billion. Your numbers are correct and so are these. We're just looking at it from a different direction. But again, the progress is there.

My reason for asking the question is that it would seem to me that any reasonable person — you say that when you go to Germany and you show people these figures, it blows their minds that we've done such an incredible job. I don't think it would be so mind-blowing if they knew that the actual deficit of all governments was in the $33-billion range.

Regardless of what standard you're using, this gives the impression that the combined deficits of all the jurisdictions in Ontario — and I haven't even talked about any of the municipalities where most municipalities by law can't have a deficit. Who knows, maybe in some jurisdictions they do. But when I look at this, how could that possibly be?

Mr Manford: If I showed you the number on the budgetary side, it would end up higher, but the progress is actually larger and as a per cent of GNP the progress is actually larger on that basis. No matter how you measure it, this country fiscally — I agree with you. The number you're looking at is $34 billion or somewhat, depending on what measure you're looking at. That is about the borrowing requirement that exists. The number though, as I said, was $108 billion at the peak whereas this was, I believe, $57.7 billion and so the progress is startling, no matter which set of books you look at. Your

point is well taken because we've got to get rid of the $30 billion. We still have work to do.

The Chair: Thank you very much. If we could move to the third party, I think we have time for a three-minute round.

Mr Martin: I want to go back to the line of questioning I was into when we moved on and see if I can get some understanding of where you are in this question of the impact that the policies of governments today, both federal and provincial, are having on communities and on people in Ontario.

You made the point that we're aiming our policy at not harming competitiveness. I suggest to you that as a government — and I understand the job you have to do and the job you do for your employer — we have a responsibility that's a bit wider, I think. When it comes right down to it, we should have a concern about the impact of all this on the people who live on our street, who live in our neighbourhood and who are the engine of our community.

We see out there now corporations making historically record profits in some instances. Last year there were at least two or three or more; I actually cut the pieces out of the newspaper. I have no difficulty with that. I think it's wonderful, except that at the same time as they're doing that, they're laying off people at historically record rates. In my community we're going to be down some 1,700 jobs. In North Bay, as I said, they're going to be down some 852 jobs and the services that we have expected will be there to educate our children, to make us better when we get sick, are being diminished at an alarming rate in one heck of a big hurry. It seems to me that we're sacrificing one generation of people here for the good of a larger, global economic plan that you have obviously bought into and believe in. Is that a wrong perspective? Am I reading that wrong?

Mr Manford: I think you have the facts dead right. I think the problem though, in perspective, is to say, what would have happened to Canada if we didn't restructure? This is a very tough question to answer, but it is my opinion, having looked at the numbers, that we would have been in worse shape had we not gone through the pain of the last years and that the problems of how we fend for our children would have been worse because we would be still languishing with huge deficits and huge debt and we would have had to raise taxes, especially on the corporations and other places and anywhere we could have tried to find it, instead of going on a process of cleansing, if you want, the excesses of one of the longest business cycles that we've had, a 10-year or a 12-year business cycle.

It is painful, but I believe, in looking at the realities of trying to go through the economies and looking at other places that have gone through the same kind of pain in the same areas, it would have been a lot worse if we had not embarked on those programs.

Mr Martin: If I could just for a second suggest to you that —

The Chair: I'm afraid your time's up, Mr Martin. Could we move to the government side, please.

Mr Jim Brown (Scarborough West): There's an obvious relationship to looking after our deficit and the foreign markets. What are your comments on what we've done so far and how the foreign markets have responded, the foreign investors? What kind of a lag effect is there and what do we have to keep doing?

Mr Manford: I think the answer is that, as a country, several years ago foreign investors demanded almost 200 basis points more to hold Canadian debt than they did the United States. Today those same people are willing to hold our debt at 10 basis points under the United States. It's a vote of confidence.

I'm just looking at a chart in front of me. In 1990 the spread between Ontario bonds and Canada's peaked out at over 90 basis points. Looking at it today, it's 30 basis points and we as a group think that will narrow as the budget deficit is brought down under control and the debt level is brought under control. So the answer is, that's their opinion. It's a fact, and I think that's the best way of describing it.

1050

When I was in Europe several weeks ago, especially in the UK, the constant theme of questioning, which was obviously sponsored by the Chrétien comments, was: "Okay. Everybody is approaching balanced budgets. When do the politicians start spending and cutting taxes and give up on it?" You have to understand, when you're talking about a UK investor or a European investor, they can be invested in as many as 15 or 20 different currencies at any given time, and they've seen many, many occasions where — in the Italian case, they started a progress and gave up in other areas. The answer is, they're keeping an eye on us. They want to see the progress and they're focused on the spending side. That's not my opinion; simply, they are looking at the spending side and are very critical of anybody who gives up.

The answer is, just looking over history, we had the widest spread between Ontario and Canada just after 1990, and the same thing in Canada versus the United States. We've made a lot of progress, but there's more to go.

Mr Hudak: Thank you, Mr Manford, for your presentation. I think Mr Martin and I share the same concern in terms of, what does this mean to the average consumer? Your chart shows that the real income per person employed has been pretty constant since the late 1980s, early 1990s. My question to you then is, maybe we can show Mr Martin there's a better future out there. If the government steers the course in terms of deficit reduction and at the same time gives a tax break to increase real disposable income, what does that mean for Joe and Jane who have had constant income since the early 1990s?

Mr Manford: Let me just quickly say why we have not had any real income growth: first, because we gave it away in terms of our productivity. That was in the 1989 fat, lazy, overpaid Canadian economy. The restructuring has cost us the real income growth. There's only one group of people who could ever pay for restructuring, and that's the consumers. They are two thirds of the economy. What happens from here on in is the payoff mode. What is crucial here is to stay the course on the spending side and start, as deficits allow, to cut taxes to allow more of that income to flow into the jeans of the

average person out there. After all, they're the people who keep this economy running.

The other thing I would point out as the important part of cutting taxes is that taxes as high as they are in this country really do get in the way of economic efficiency. I don't, in a way, care about the political issues in the sense — please don't get me wrong. Just looking very narrowly at the economy as a machine, which is what it is, it runs better on high octane. When you raise taxes, it's like putting cheap gas in the car. You raise them too far and the thing just doesn't run right.

The numbers I looked at suggest that top marginal rates of somewhere around 44% all in is a very efficient level. Beyond that, you start slowing economies down. Interestingly enough, the UK, which everybody thinks of as a high-tax economy, has a 42% top marginal rate and the economy is working very, very well, thank you. I think that's the lesson we need to do. The New Zealand so-called miracle was also built on the back of massive spending and matched tax cuts. The difference between just fiscal drag and the program that Ontario has embarked on is to make government smaller. Part of the reason we lost the real-income-per-person-employed game is because governments got too big; they took too much of the pie.

Mr Cordiano: I would like to explore that a little further with you on two fronts. First, the province is, as you've heard recently, offloading some of its costs on to municipalities. It has been suggested that the province's credit rating might be affected by this, or at least the borrowing capacity of municipalities would be affected by it, more to the point, in which case the municipalities will have one of two choices: reduce services or increase the price for those services, namely, through the property tax.

How do you think that will impact on the consumer? Obviously, you've talked about that being critical to fuelling the economy, as you put it, high octane. A tax cut isn't a tax cut if you're taking it away on the other hand by increasing property taxes; or, alternatively, by eliminating those services and requiring people to pay for those services in additional user fees. It comes out of the economy anyway, I'm sure you would agree with me.

Mr Manford: It all is a matter of balance. The secret to making the program work — I have studied this for many, many years and have been arguing, effectively, for this kind of program for 15 years — is to make sure that governments are getting smaller. Admittedly, the whole fiscal drag issue is going to loop back on the economy; it has an impact. But by getting governments smaller and transferring more money into the hands of the average person out there, we're working on a basis of increasing the efficiency of the economy.

If you look at other cases, what has happened — and again, I will admit to you I haven't looked at all the details of this — in other economies and in the US economy when the Reagan package was foisting all the control first to the states and then to the municipalities was that everybody got lean and mean in a hurry and learned how to do it with less money. Probably what we're looking at in terms of the first impact on this thing is how to do it. In the end you wind up, hopefully and by past history, looking at the UK Thatcher period or the Reagan period in the United States, admitting the fact that Reagan overspent, but looking at what they did, they wound up with leaner and meaner machines down the road.

Mr Cordiano: But if you look at the situation with respect to these costs having to be funded — let's look at health care, for example. It's threatening the US in terms of its efficiency. Health care is taking more GNP out of the economy; it's taking a bigger bite. They're not as efficient as we are with respect to that. Whether it's private dollars or public dollars is immaterial. It's a question of how much of your GNP you're spending on it. In that case, it then becomes a political choice of how you collectively pay for a service or goods that are provided either through public means or private means. It's a question of how efficient you are. Then that becomes the issue. But ultimately, you end up paying for it in one way or another. The other thing is with respect to tax rates. Obviously, that affects it. It's not just a tax rate, but it's also a necessary expenditure on the part of consumers.

Mr Manford: Le me just say that the United States chooses to spend more of its GNP on health care because they demand instant services. That's a choice. It's not the government that's been driving that particular choice.

I guess the answer is to look at the example of the state of Florida, which has no state income tax. It has a state sales tax, I believe, of 7% and very high property tax, quite high. What's happened is they've chosen to pay for it in a different way. Again, the key comes back to this country for the province of Ontario. As time goes on and the federal deficit gets down, the key here is to make sure that our tax rates are dropping in total. I agree with that.

Mr Cordiano: Right, but you've talked about tax rates. The key thing here is that this government in Ontario, Harris's government, has chosen to combine its expenditure cuts with tax cuts. Before the payoff or before they've undertaken the difficult course of expenditure cuts, they're already paying off consumers, as it were, and our deficit remains that much higher than otherwise would be the case.

Mr Manford: I disagree with that. I think actually the deficit probably would have been slower coming down if the tax cut had not been there.

Mr Cordiano: Wait a minute. Everything that's fuelling growth and consumer spending is not as a result of the tax cut just yet; it hasn't been felt. Everything that's happened in terms of income growth, which you referred to, is as a result of growth south of the border and our exports going through the roof. That's what's happened there. That I think you can agree with me on. The impact of this latest tax cut certainly isn't being felt in the economy in paycheques. That was a January 1 tax cut, and anything before that was marginal at best. So you're seeing an income and wage growth that's not as a result of any tax cuts currently.

1100

Mr Manford: I think what really happened is that everybody looked at the tax cut and it did have an impact on Christmas spending. The polls that were taken suggest

that there was an impact and that the future tax cuts are important to people's psychology, very important to consumer confidence.

The Chair: Thank you very much, Mr Manford, for taking the hour and spending it with us. We appreciate your input.

PATTI CROFT

The Chair: Our next deputee is Ms Patti Croft, managing director and chief economist of Canada Trust. Welcome to the committee, Ms Croft. You being an expert witness, we have an hour to spend together this morning. I would appreciate it if you would make a presentation to us, and we will use up any remaining time in questions.

Ms Patti Croft: Thank you and good morning. It's a pleasure to be back again this year. A year ago, I came to the committee to talk about the outlook for 1996 for the Ontario economy, for the Ontario fiscal situation and mainly to talk about the impact of what at that time was the proposed Common Sense Revolution.

When I came to the committee last year I focused most of my comments not on econometric projections for growth, for jobs and the deficits pumped out by these large econometric models. Rather, what I really focused on last year, if you recall, was what the world's financial markets were telling us about how they viewed the prospects for the province of Ontario. In my presentation today I'd like to again speak to you about how the financial markets now take a look at the province of Ontario and in addition I'd like to talk about what I think are some indisputable facts about what has gone on in this province in the last years.

Again this year I do not come to the committee armed with pages and pages of econometric analysis which will tell you with irrefutable, three-decimal-point accuracy where the economy is going, where jobs are going and where the deficit's going in the upcoming year, because for one thing, unlike many of my colleagues, I don't have access to one of those large 200-equation models. But probably of even greater importance for me is that I don't necessarily believe in the predictabilities of many of these economic models. The reason for that, just to give you an example of why I don't put a lot of stock in these modelling results, is that what the models tell you in theory and what actually happens in reality are often two very different things.

If I could just take a moment to explain an example of how this is working right now — it's outside of our borders, but I think it has a lot of relevance to what's happening here. Right now, in theory, if I looked at an econometric model it would tell you that an economy can only grow so fast and then ultimately you will see inflation rising. This is the theory that if there's strong demand for goods and services in an economy, that will raise the level of job creation, it will drive down the unemployment rate and that will cause wages to move higher.

The reason for that is that if there's a shortage of workers, then what happens is companies have to bid labour away from other companies, entice by higher wages. That sets the stage for what we call the wage-price spiral — in the past it did anyway — because what happens is that as wages rise companies then pass along their higher costs into the price of the goods and services they are producing. That sets the stage for higher wages raising prices and then labour looks for even higher wages in order to compensate for the increasing bite of inflation in their take-home pay.

That's the theory, but you see, the problem I have with econometric models is that the theory doesn't work any more. I think that what is happening in the US and I think what's happening in Ontario as well is that we are experiencing what economists are referring to as a paradigm shift. To me, a paradigm shift is just a fancy way of saying that things have fundamentally changed.

Indeed, if we look in the United States right now, inflation has not moved higher, wages have begun to creep up somewhat, but what's happened is that firms in 1997 have a complete inability to pass along those higher costs into the price of their final goods and services because price-conscious consumers simply won't have it. That's just an example, if you will, about why I don't put a lot of stock into econometric models and why I don't come to you today with a lot of econometric analysis.

You may wonder, "Where is she going with all this?" When I came to the committee last year, I remember very clearly that there was a great controversy going on at that point in time, and it was centred, of course, on the government's proposed policy prescription for reducing Ontario's deficit. A lot of economic analysts came to the committee, geared up their models, input the impact of the spending cuts and the tax cuts, and proclaimed that the model said that the tax cuts would not lower deficits; that these two things were mutually exclusive, that this was a classic oxymoron, that you cannot cut taxes and reduce deficits.

That's the theory, but I think again what the theory missed was a paradigm shift in the province of Ontario. Importantly, I think what the models missed was where we are starting in terms of the starting point for the level of taxation in this province. Yes, in theory, if you cut taxes the models will say it will increase the deficit, but I think this antiquated theory no longer applies to the province of Ontario.

Here again I would argue that these models that were predicting these higher deficits should be ignored. What I would urge people to do is take a look at the facts: What has happened in the last year? In the last year, the government cut spending and they cut taxes. What happened? If we look at the economic numbers, the economy took it on the chin. At the start of the year we had a very weak beginning to 1996, but by the third quarter, which unfortunately is the latest data we have, real growth had staged what I would call a dramatic turnaround. After falling at a 1.5% rate at the start of the year, we saw that the economy roared ahead with growth of almost 4% in real terms in the third quarter.

What I find very important in analysing these numbers is that the expansion was broadly based. It was led by business investment, housing was a big contributor and exports continued to be quite strong. I know the finance minister has already gone through these numbers, listing

all these impressive facts and figures, so I won't dwell on them, but as an economist I do have to highlight some of my favourite ones.

One of my favourite ones is the facts on business spending. Businesses are spending more on machinery and equipment than they have in the last decade. What they're buying particularly is computers. That's great news for the productivity of the corporations of Ontario and to me the fact that they are spending more is a significant sign of increased business confidence.

No wonder they're feeling confident. We saw the numbers on corporate profits. After a very weak first half, corporate profits in the third quarter rose at an annual rate of over 50%. Again, business confidence is up for a good reason. I think that's very important for Ontario. Signs of renewed investment in this province are hopefully a sign of stronger job gains ahead as well for 1997.

That's one of my favourite numbers on business investment, but probably of greater importance to everyone around the table today is, what about the poor old consumer? What happened when that tax cut did come through? Here again, I'd like to just stick to the facts. The fact is that consumers did not spend that much. They really did not participate in the economic recovery, according to the official data that we have to the end of the third quarter. Real consumer spending was quite soft in both the second and third quarters.

But I do see some signs that there is a light at the end of the tunnel because I think the figures for real disposable income are quite remarkable. After falling, actually declining, in the first part of the year, we did see real disposable income bounce back in the third quarter, rising at almost a 4% rate. This was solely due to the implementation of the tax cut.

But what happened is that debt-laden consumers opted to raise their savings rather than to increase their spending, at least initially. The savings rate nationally and in Ontario has declined significantly. In Ontario, it's fallen from 9% in late 1995 to just 7% in the summer of last year. What happened is that with that disposable income consumers opted to increase their savings rather than spending. The savings rate rose to about 7.5% in the third quarter.

Some people may say: "The tax cut isn't working. It's not helping to increase consumer spending." It is true, if we look at the retail sales number — and maybe the minister didn't mention this one — it was an abysmal number for Ontario in 1996. There were only two provinces last year that registered year-over-year declines in retail sales and those two were Ontario and Newfoundland.

However, I believe that by using the tax cut to repair their balance sheets and increase their savings, this still puts the Ontario consumer in a stronger position to spend in 1997. This is particularly true of jobs that continue to stay on track.

1110

I think 1996 was a good year for Ontario, creating 90,000 new jobs, which was half the total for Canada, despite the fact that we only represent about 40% of GDP. The unemployment rate, though, seems stuck, firmly entrenched at around 9%. I think the unemployment rate is one of those lagging indicators. We have got to focus primarily on the pace of job creation, and that was a good-news story for Ontario in 1996.

The official data, unfortunately, as I mentioned, for Ontario are only available to the end of third quarter, but in the meantime we know that the real estate market in Ontario is red hot and that Canadians, both here and across the country, are finally beginning to buy cars again. We had yet another number for December this morning: car sales up 5% month over month.

The housing numbers for Ontario have been nothing short of spectacular and there are no signs of that letting up. We saw the data for Toronto resale home sales. They've roared ahead and, importantly, we're finally seeing that housing starts, construction, digging the holes are also beginning to improve as we're working down the inventory of existing homes. That, coupled with the car sales, are two signs that consumers are finally feeling a little bit more confident and beginning to spend again.

Looking ahead for 1997, with interest rates set to stay low, with job creation improving somewhat, I think we should watch very closely for official signs in the data that consumer spending is contributing more equitably to growth in the economy. I think that is significantly supported by these tax cuts, which are putting money back into the pockets of consumers.

The facts tell us that despite big cuts in government spending, lots of fiscal drag, the Ontario economy performed very well in 1996. It was helped by improving business confidence, by continued strong exports, and I think the data will ultimately tell the tale of the renaissance of the Ontario consumer.

That's the economy, but now what about the deficit? Here again, despite what the model said, tax and spending cuts actually saw the deficit move below target last year. I must admit that fits quite nicely, quite perfectly in my mental model because I believe that the level of taxation in this country and in this province has risen to the point where tax revenues have actually diminished. That's because more and more the economy has been driven underground. In addition I have to say there is something fundamentally flawed about a country where interest rates are at 40-year lows and yet consumers have only very recently begun to spend.

I think the reality for Canadians is that our incomes have declined over the last several years. They haven't kept pace with inflation and, hampered by high unemployment, spotty job growth, record levels of debt, declining real incomes and a 30-year low in the savings rate, Canadian consumers have been in hibernation. I have to admit that I think the only way you're going to get consumers spending again is to put more money back in their pockets. Interest rates don't seem to be doing the job in and of themselves. I think you do that in one of two ways: through a tax cut or through reducing the level of taxation on what is well known to be the job creation engine of Canada, which is small business.

Back to the deficit now: For Ontario, even with the tax cuts we saw in place last year, Ontario's deficit is still running ahead of target. Again let's look at the facts here. You will point out that the receipt of the 1995 federal tax assessment certainly boosted revenues in the current year,

but if we look at the individual components, retail sales taxes are still $160 million over budget despite the fact that the official data would tell you that retail sales are weak. Corporate taxes are $320 million over target. So again, despite this tax cut, revenues independent of that federal government windfall are actually running ahead of plan, which I think is quite remarkable.

On the spending side of the ledger, the thing I would focus on is debt servicing because the decline in Canadian interest rates in part I think reflects the tremendous improvement in both our federal and provincial fiscal situation. I travel across the country, I travel around the world telling the story of what I call a true Cinderella story for Canada: that the world is in love with our country.

This happened in 1996 and shows no signs of abating into 1997. They have looked at Canada and they have seen that our deficits are declining. Our inflation is low. Our political waters are calm for now. Our current account is in surplus for the first time in 13 years. They've taken a look at this and they've actually put their money to work, investing in Canadian markets.

What this has done for Canada is that it has allowed us to lower interest rates, and that benefits each and every one of us, not so much if you're in the market for a house or a car, but the other way it benefits us is that all governments are experiencing a decline in their interest costs. This is true for Ontario as well. Because of the low interest rate environment, interest expense for Ontario last year ran about $200 million under target, and I expect that this same phenomenon will continue well into 1997.

Those are some of the facts on the economy and the deficit in terms of the outlook. I expect Ontario will outperform the national economy this year in terms of growth rates. Our forecast for Ontario is about 3.5% real growth ahead of the Canadian economy, and I think that, importantly, it will be broad-based gains in economic activity. This will be helped along by a reduction in the fiscal drag in terms of the spending cuts that were placed upon the economy in 1996.

On the fiscal side the situation is well on track. I think the deficit targets in the next year or two are readily achievable. I don't like to go beyond that time frame because the reality is that the crystal ball beyond that point is not all that clear, but I think in the next year or two that the deficit reduction targets are easily achievable.

I promised the committee that I would talk today about what the rest of the world is telling us about Ontario. I find this to be an important exercise because it removes some of the subjectivity of our political views and also removes the questionability of economists and their forecasting ability. It really focuses on telling us what the world's investors are viewing in terms of the prospects for Ontario both from a financial and economic perspective.

The way we can gauge how investors are looking at Ontario is by looking at the spread of Ontario bonds over government of Canada bonds or over US treasury bonds or Japanese bonds. When the government took office in June 1995, Ontario's 10-year bonds were trading at about 40 basis points over Canada's. Today that spread has been reduced by half; they are trading at only about 20 basis points over government of Canada's. This provides Ontario with a tremendously cost-effective method of financing, and that's very important because, as I'm sure you know, in the next couple of years the debt maturity schedule rises significantly for Ontario. To have these very narrow spreads in place is fundamental for the outlook for our financing.

I would, however, be remiss if I didn't point out that it's true that all provincial spreads have narrowed over Canada's, but the fact is that Ontario is very tied to the federal government, and this indicates that on a domestic perspective investors have a lot of confidence in the fiscal plan.

I spoke of the international view, and to me that's probably the more important one. To get the international view I've spoken to some of my former colleagues in Europe and in New York, and particularly today I'd like to talk for a few minutes about how US investors are viewing Ontario right now. The international view of Ontario has become increasingly important, perhaps even more important than the domestic view, for two key reasons: First, as you know, now the province of Ontario does most of its financing outside our borders, so the international investor's view of what's happening to Ontario has become increasingly important; second, the view from outside the borders of Canada and Ontario is perhaps just a touch more objective than the one we have here at home.

What happened when I talked to my former colleagues in the United States? In short, US investors love Ontario. I have to admit they love Canada too, because that same story I told you about the improvement in our fundamentals applies very much to the provinces, but among the provinces they continue to view Ontario very positively. They are in favour of tax cuts and they're very impressed with the rapidity with which the government has implemented some of the major platforms of the Common Sense Revolution. Don't forget these are the same people who loved Ralph Klein. Now they still love him in Alberta. They look at what's happened in Alberta. Going from a $3-billion deficit to a $2-billion surplus in the space of a few short years is no mean feat, although I would have to say $25-per-barrel oil did a lot to improve that situation. But they view Mr Harris very much as being cut from the same cloth as Mr Klein. From their perspective this is a positive.

US investors for the most part have always been very puzzled by Canada. They can't figure out why we have such high levels of taxation. In their view any government which favours tax cuts and actually enacts them is very positive. Remember, in the States right now they're advocating even deeper tax cuts even though their current level of taxation is well below ours. So tax cuts, in a word, make a lot of sense to US investors.

1120

Many people I spoke to — I'm not sure if this is a good thing or a bad thing; I'll leave this to you to decide — view Mr Harris as being very American. They look at him and his no-nonsense approach to cutting spending and cutting taxes and that rings very true in their ears. In 1996, when I spoke to many of my col-

leagues in the United States and the people who are actually buying the bonds, their biggest concern about Ontario was how you cut taxes and still reduce the deficit, because they look back to Reaganomics when taxes were cut and the deficit exploded.

But the deficit exploded in the US because defence spending rose at that same time, so their concerns were based on their own experience in the United States. They were worried that Reaganomics is going to happen in Ontario as well: "They're going to cut taxes and their deficit will explode," just as it did in the United States. But I have to say that those initial concerns with respect to the tax cut actually increasing the deficit are now non-existent. They've looked at what's happened here, that we've cut taxes but we also cut spending and the deficit is well on track.

Despite the relative size of the deficit, you would think that if they look at Canada — really when you look at provincial deficits now you only have to add up three numbers: Ontario, Quebec and BC. When you're looking at provincial deficits you may think the relative size of our deficit would perhaps hamper their interest in Ontario, but despite the size of the deficit, they like Ontario. In their words, and this is to quote them, we now trade "like a true, solid AA credit, not like an A any more." Again, what they're using to gauge this is the relative spread of Ontario Yankee bonds, they're called, priced in US dollars, over US treasuries. I'll go over the figures in a minute but those spreads are very tight. They say that Ontario is trading like a solid AA credit and in their minds that means there is no possibility whatsoever of a credit rating downgrade for Ontario.

When I spoke to them — they've looked at 1996 in perhaps a different light than we look at it — they said that in 1996 Ontario experienced three shocks, yet the deficit is on track and spreads are very tight. Those three shocks were the GM strike and the impact on the economy, which didn't hurt the deficit; the civil servant discontent, which didn't hurt the fiscal plan; and also the tax cuts and the fact that the deficit ended up being lower than expected. So in the minds of US investors, having experienced what they called three fundamental shocks and spreads were still tight is viewed as a positive development.

If we look at the Yankee spreads, when the government took office in June 1995 the province of Ontario at that point traded 60 basis points over US treasury. This is in the 10-year area. Right now that spread has tightened into 38 basis points. The problem is that they still like Ontario but, believe it or not, the problem for Ontario is competition in the Yankee market. A couple of years ago the provinces in Canada accounted for about 60% of the Yankee bond market. Today, because we're issuing less debt, we only account for about 20% of the Yankee market.

Guess what US investors are buying. They're looking for yield, they're hungry for yield, so guess who is issuing Yankee debt? Countries from South America such as Colombia. They're not issuing at 38 basis points over US treasury bonds; they're issuing at several hundred. The problem for bond investors in the United States is, if I'm sitting at Fidelity, the stock guy across the hall, he earned 25% last year on his portfolio and I only earned maybe 7% or 8%. The province of Ontario: I like the story, I like the developments, I like what's happening but I need higher yield, so I'm buying those Colombian Yankee bonds as opposed to the province of Ontario. But that does not alter whatsoever their fundamental positive view on the developments here. It's just a reflection of market forces. They're hungry for yield so they'll get it wherever they can.

In conclusion, what I've tried to do in speaking to you today is focus, I hope, on the economic and fiscal facts. I haven't done a lot in terms of bold predictions because I don't bring to you today my econometric analysis. I've tried to bring to you hopefully, once again, the international view, the market's view of Ontario in the hope that will help shed some light not so much on what's happening domestically but on how the people who are actually buying our bonds to finance the deficit are currently feeling about the developments in the province of Ontario. Thank you.

The Chair: Thank you very much. If we could start in rotation with questions from the government caucus.

Mr Wettlaufer: Welcome, Ms Croft. Good to see you again this year. A couple of months ago I saw you in an interview, I believe on CTV but it doesn't really matter, and you were being interviewed on your recommendations to the federal government for its upcoming budget. I wish I would have seen the whole thing, because I may take it out of context here; I hope I don't. You recommended a tax cut at that time.

Now I would like to tie that into something else here. I have some newspaper clippings that I've clipped out of the newspapers recently and they talk about debt and high interest rates and the effect on jobs. Lloyd Atkinson: You've probably read recently or talked to him about his prediction that Canada would have 250,000 more jobs. John McCallum recently predicted that there are 400,000 jobs in the pipeline, thanks to low interest rates.

I guess what I would like to have you comment on is our activities in Ontario, what relationship they have to lower interest rates in the country and, generally speaking, an emphasis on the confidence of the Europeans, the US and other investment markets and what this is doing for our jobs in the province.

Ms Croft: I think, as I mentioned, one of the factors that has contributed to the significant decline in our interest rates, perhaps not so much short-term interest rates but long-term interest rates as well, is this global view of what's happening in Canada. When they look at Canada they see a Cinderella story in terms of our fiscal situation, not just in isolation around the federal government but around the provinces as well. If we look at the provinces, as I said, this year seven out of 10 will actually be in budgetary surplus, and the Alberta situation is truly phenomenal, with a $2-billion surplus.

How Ontario is contributing to lower interest rates is through staying the course, focusing on deficit reduction, implementing broad-based spending cuts and tax cuts to achieve that. Even through the situation in 1996, when we had a significant strike and some resistance to the fiscal plan, the government has stayed the course. The global investor looks at that as a very positive element

for Canada, that even the two fiscal laggards, which are Ontario and Quebec, are now getting their act together. They've gotten deficit-cutting religion. They're talking the same language as every other province, which is important to get the deficit down and keep it down.

I think Ontario's contribution to the lowering of Canada's interest rates has been significant, because as the largest province, if we went our own way and just allowed the deficit to stay larger or actually to increase, then that would be viewed as a negative, not only for Ontario but for the country as well. I think Ontario has contributed to this positive environment of Canada's turnaround in its fiscal situation and that's helped reduce our interest rates.

Mr Wettlaufer: That's good news. Thank you very much. I know everybody on this side of the room is very happy to hear that good news.

Mr Hudak: Thank you, Ms Croft, for your presentation. I enjoyed it last year and enjoyed it again this year.

It's likely you remember a great deal of debate last year over whether a personal income tax cut made sense. Across the floor it seemed like it would be the apocalypse if we dared to cut the high marginal tax rates that we have in Ontario, but your presentation shows that just the opposite has taken effect, that that was an antiquated theory, that in fact tax cuts lead to better growth, consumer confidence and business investment. I'd like to think that the new front bench across the floor is going to bend in that antiquated theory and embrace tax cuts. That's my hope for the future from across the floor.

I guess your lessons today were that tax cuts have made sense for foreign investors, that tax cuts made sense for domestic investors and tax cuts made sense for business investment and business confidence. My question is, will tax cuts make sense for consumers? You talk about a renaissance late in the year. What will the personal income tax cuts mean for consumers in 1997?

Ms Croft: First of all in terms of the foreign investors, I would have to say that they were as sceptical as perhaps the opposition was at the beginning of 1996. The view I got from around the world was: "Tax cuts and deficit reduction do not go hand in hand. We'll give you guys the benefit of the doubt, but our US-based experience would suggest that it simply does not work."

But importantly today, those fears have been completely unfounded, unwarranted and have disappeared from the radar screen. I think it is fascinating. It's an experiment in the making here, the laboratory of Ontario, where we actually are trying to cut taxes, cut spending and reduce the deficit. In 1996, the facts would indicate that we have achieved that.

1130

What about the Canadian consumer? That's the big problem. As I said, there is something fundamentally wrong in a country where interest rates are at 40-year lows and people have only just begun to spend on houses and cars once again. In my view monetary policy in Canada has almost become like pushing on a string. It doesn't matter how low interest rates are, unless you have a job and security around keeping that job, you're not going to be out there spending, particularly not for houses and cars.

My view, which is the one I guess I expressed on CTV, is that in terms of a policy prescription, maybe monetary policy doesn't work. It certainly doesn't work in isolation. You can't just create jobs out of thin air. Lower interest rates, a positive environment ultimately will create more jobs, but for now that's a forecast; it's not a reality.

How do we increase consumer spending? From a policy point of view, to my way of thinking, the only way you do that is through a tax cut on personal income, which puts money back into the pockets of consumers, or on a payroll tax, a documented job killer. Small business is the job engine growth for Canada, so by reducing payroll taxes perhaps that's another way we can create jobs and income.

Mr Hudak: If this government had listened to the advice from across the floor and decided not to cut personal income taxes, what position would consumers be in today? If we had followed their advice and just abandoned the tax cut pledge, what would that mean for consumers and personal disposable income and such?

Ms Croft: What we've seen in terms of the data we have so far is that Ontario consumers are not spending yet. What they are doing is raising their savings. They've had to draw down their savings in the past couple of years. They've had to draw down their savings just to be able to survive.

Initially, what the tax cut has done, and this is what the numbers are telling us, is that people are using it to repair their balance sheet, but ultimately I still believe that leaves the consumer in a stronger position to spend. We're seeing more current data on houses and cars showing that indeed they are spending. So the tax cut initially may have been used not to spend and boost the economy but to improve balance sheets. But either they spend it now or they spend it in 1997. I still say it puts the consumer in a stronger position to spend this year.

The Chair: We move to the opposition.

Mr John Gerretsen (Kingston and The Islands): I enjoyed your presentation. Let me first of all say to the members opposite that this may come as a surprise to you, but we really, truly believe in a strong economy as well for Ontario as long as everybody benefits from that —

Interjections.

The Chair: Order. Mr Gerretsen has the floor.

Mr Gerretsen: — as long as everyone benefits from that stronger economy. That's precisely the issue I'd like to address to you. You indicated that about 90,000 new jobs were created in Ontario. In the Common Sense Revolution and in documentation filed by the Minister of Finance following that, he promised 145,000 jobs on an annual basis. Would you agree that's well below the estimation they set for themselves?

Ms Croft: Perhaps that goes back to my old theory about a paradigm shift where those numbers that the government was using to forecast employment growth were probably based on the past paradigm. In the past, with low interest rates and a pretty good economic environment, we did create jobs. But it's not only happening in Ontario; it's happening all across this country. We're in this new paradigm for businesses across our country: To

be competitive, you have to be lean and mean; to be lean and mean, you have to cut costs. Two thirds of business costs are labour. In Ontario, for example, businesses are buying computers. That's great. It increases the productivity of the companies in Ontario; that creates corporate tax revenue. But what are they doing? Perhaps they are replacing people with technology.

Mr Gerretsen: Which really leads me to my second question, and then I'll turn it over to Mr Cordiano. Do economists look at all at other issues as to what happens to a society, the gap expanse between the haves and the have-nots? What I'm particularly interested in and I've always been interested in, in this whole notion, is that it's great to have the technology, but what do we do with all the people five, 10 years from now? Do we all go to a 20-hour workweek? Do we go on a part-time job basis etc?

It really is not a very healthy society to have so many people who are talented, many of them with university or college degrees etc, young people — I know in my own children's peer situation there are many, many of these young people who simply cannot get a job. How does the economist react to that kind of situation and what do you feel that we, as a government, as a society, can do about that?

Ms Croft: Big question. In terms of the economist's point of view, there are some economists who are just financial market economists, so those social issues don't even enter into the equation. But I can tell you that I travel across Canada and I give economic presentations to clients of Canada Trust, which are the average Canadians, and this viewpoint is continually expressed. I agree with you that what's happening in this country is that we are creating a gap between the knows and the know-nots, is the way I would put it.

If you know your way around a computer keyboard, your job prospects are far greater, far more positive, than someone who does not know their way around a computer keyboard and perhaps doesn't have access to the training in order to improve their skills to bring them up to that level. So, yes, as I travel across the country, I'm reflecting back to you the view of Canadians that this gap is growing between the knows and the know-nots, which are the haves and the have-nots. The youth unemployment rate is 17%. When I talk to businesses, they tell me they are not able to fully integrate the people who are graduating from our colleges and universities into the workforce because they're not receiving the proper education. It's a mismatch of education and skills, according to corporate requirements.

So training is a huge issue for Canada. How do we get at that pool of structurally unemployed and provide them with productive lives in terms of the job cycle? It's something we think about, but I must say it gets kind of pushed aside. The more critical issue is: "How many jobs did we create this year? What are the deficit targets? What's the outlook for interest rates?" But I share your concerns on the longer-term social implications of what we're creating.

Mr Cordiano: I want to touch on your comment about the Cinderella story. The world view of Canada is improving and that's great for all of us, and obviously we on this side hope that continues. I think, however, we should examine just how that Cinderella story came about with respect to what the federal government has done. There's a divergence, obviously, in terms of policy. This Conservative government in Ontario is using tax cuts. The federal government is not. It's taking its course of action and undertaking deficit control through expenditure cuts, a very different approach.

I think you would also agree that the decline in interest rates has had a huge impact in 1996, third quarter and fourth quarter, because that's when we saw interest rates really take hold. In fact, this quarter is benefiting from that as well. You're beginning to see the real results of that interest rate decline show up in consumer spending, which it did not do.

If you took last year's income tax cut that this government provided — and by the way, we should track just what impact that had on consumer real disposable incomes, actually. I would also like to ask if you've done a comparison between the rate of reduction in the deficit federally and the rate of reduction in the deficit in Ontario, comparing the two; where the federal government started from, the percentage decrease over the same period of time, and compare that to Ontario's record, because there is a difference there. So you would factor in the income tax cut and see how the two compare. Has anybody ever done that?

Ms Croft: No, and I'm not so sure that you can, really, because the way the federal government achieved its deficit reduction, as you pointed out, was through unprecedented cuts in government spending, ie, four consecutive years of decline in real government spending, never seen before in this country, and it was helped tremendously by the decline in interest rates. But it's a very different situation for Ontario because of the structure of the debt. It was a big win for the government as interest rates declined because so much of its debt was short-term in nature.

Mr Cordiano: For Ontario?

Ms Croft: No, for the federal government.

Mr Cordiano: So what's happened to Ontario's deficit?

Ms Croft: Ontario has a very different debt structure. Far less of their debt is short-term in nature, so what was a huge windfall for the federal government is benefiting Ontario, but nowhere near to the same extent. So I'm not so sure you can do that —

Mr Cordiano: But it's showing up in real —

The Chair: Our time is up, if we could move to the third party.

Mr Cordiano: I had a very important question I was going to ask.

The Chair: We'll come back to you.

1140

Mr Martin: I find your presentation interesting, not significantly different from the presenter before in the good feeling you have about the economy and what's going on in Ontario. I think it's important that people like yourself travel outside of Ontario and hear from people, what they're saying about us and how they're feeling. I think it's important as well that you travel across Ontario and Canada.

I would suggest, though, that the clients of Canada Trust aren't necessarily the ordinary Canadian. There are a lot of Canadians who aren't the clients of Canada Trust who are busy trying to keep body and soul together, if they have a job, working very hard at it, trying to figure out where they're going to get education for their children and health care for themselves if they get sick, or their aging parents, and all of those kinds of things. There is actually a much bigger picture that you may not be charged with having a look at but certainly we as government have a responsibility to be aware of.

The presenter before talked about Britain and the British economy doing well. Britain's about to turf out its government and put in a new Labour government. We're presented with the example of New Zealand and we've all seen that. Certainly we as a government before this bought into that.

I guess it surprises me that we don't ever seem to be interested in countries like Norway, which has chosen to stay out of the European economic community for reasons they themselves have determined are in their better interests. They're not doing the kind of thing we're doing, yet all of their indicators are very positive, from what I can read. Their inflation rate, their interest rates, their employment rate is much better than what we have here. They have a social safety net in place that provides the kind of security of person that I think is absolutely essential to any long-term economic stability and gain. Could you comment on that a little bit?

Ms Croft: I must say I'm not that familiar with the situation in Norway. Most of the work we do in our investment work unfortunately reflects the reality of where we invest the moneys for Canada Trust, which is primarily in the major economies of the world, so I really am not that familiar with the situation in Norway. The only thing I would look at from a financial market perspective is, what are the markets telling you about Norway? Norway's interest rates are much higher on a relative basis, for example vis-à-vis Germany, which would be your benchmark for Europe, so Norway's bonds would trade considerably above German bonds because there is a cost of maintaining that large social safety net. It presents a very different society, but it is a cost in terms of the fiscal side of the government as well. But I must say I'm not that familiar with Norway's numbers to be able to say, "Yes, Norway is a good example of what Ontario was and how it's changed," and to be able to draw any comparisons for you. I can't add a lot there. Sorry.

Mr Martin: I would agree with you as well that there has been a shift that could be described as a paradigm shift in Ontario. Anybody who spends any time at home on their own streets and in their communities listening to people will tell you that the anxiety level is up. People who lose jobs, whereas before they thought, "I'll just look around and in a month or two I will have another job" — it's not the case. People who were rather confident they would have a job in the long term aren't any more. For me, that's a significant factor in terms of the long-term viability of an economy.

You're saying that consumer spending is up. It may be, among those who are still fairly secure, but it's not among those who aren't. The tax break only benefits those who have a job and are able to take advantage of it and those kinds of things. In my community, as I go around and talk to people, their biggest concern is, number one, a job for themselves and a job for their children and, number two, education for their children. Actually, number two and number three are education for their children and the declining state of health care. What, in your mind, will be the long-term impact of that kind of instability and lack of confidence in our communities on the economy?

Ms Croft: In terms of the paradigm shift, I agree with you. There are a lot of walking wounded out there. There are a lot of people out there who thought they were secure and would have a job for life who find themselves unemployed, and they never thought they would be.

What's happening is, if you look at the job numbers, most of the jobs that are being created — actually, all of them since last September — have been through self-employment. People are now saying: "I can't rely on government to provide me with lifetime employment; I can't rely on large corporations to do that. I have to take care of myself." But there are some people as well for whom that's not even an option. What's interesting is that a lot of people are turning to themselves and saying, "Self-employment is the only way to go in terms of creating a job because I can't rely any longer on corporate Canada or on government to provide that level of security."

What are the longer-term issues for Canada? Last December there was a poll done for CBC and Maclean's. I was struck by one of the findings of that poll, and it reflects what you've highlighted here. Canadians were asked whether they would have a full-time job, and I think the number was astounding. I believe it was around 60% or 70% of young people who did not feel they would have a full-time job in their lifetime. Again, it goes back to my story about a paradigm shift, and yes, it creates tremendous insecurity. I think it will settle out ultimately, but what we're in right now is a transition period. It's extremely uncomfortable and it's insecure for many Canadians, and that was reflected in that poll.

Can government do anything about that? I don't know whether we can do a lot in terms of initiatives to help improve that. As I said before, I think training is critical — I hear that all across the country — training and providing for those have-nots, trying to get them back into the workforce in some way, shape or form.

The Chair: Can we move to the government side?

Mr Jim Brown: I agree with you when you say we have the lowest interest rates in 30 years. We've put more money, after the tax cut, in people's jeans, even though the feds have scooped some of it lately, and there are 90,000 new jobs, but still consumers are not spending because they're worried about a job.

Then you went on to say about small business and I agree with you 150%. What else can we do to help small business? I have a theory that the supply of capital for small business in Canada is a very tight supply. It's not a competitive supply, it's controlled by a few suppliers. I'm wondering about your opinion. If that were broadened, if there were more competition, if the supply was

increased, would that help small business? And any other ideas you might have to get the job generator — small business — going.

Ms Croft: You probably need to have Catherine Swift here to ask that question as opposed to me. My understanding is if you ask small business, "What is your biggest impediment to further growth?" number one is payroll taxes and number two is usually government regulation, cutting red tape.

I'm not so sure where capital availability falls into the equation. I know the federal government has done a lot to raise awareness among the major financial institutions that this is something they should be focused on because of the job-creating potential of that area of the Canadian economy. One of the banks — I think it was the Bank of Commerce — introduced this program of cut-rate loans for small business as long as they do create jobs. That's an innovate way of looking at this issue, providing lower-rate financing in return for job creation. Maybe that's the first step in some initiatives that are not so much government-generated but private-sector-generated.

I think government can do something on regulation, and they have. I think they could do a lot more on payroll taxes. But the private sector needs to do its part as well, and perhaps programs such as this are a sign of things to come.

The Chair: Could we move to the opposition?

Mr Kwinter: I'd like to just follow up on the tax question on small business. At the present time Ontario has the highest small business tax in Canada at 9.5%. That's compared to, say, Nova Scotia at 5%. We're totally the highest. The manufacturing tax is the second-highest in all of Canada.

I think one of the problems we have is that there are things happening in Canada that are happening because of systemic change, structural change that's benefiting everybody. This particular government has had the good fortune to be in power at that particular time, and everything that happens, they seem to think, "This is because of what we did." Yet if you take a look at the other provinces, in many cases they're doing better on a proportion basis. There's no question that Ontario, being the largest component in the Confederation, is going to get this benefit.

1150

You're talking about the spreads. At the present time the spread of mid-term Alberta bonds is double that of Ontario. You can explain that very easily: They have a cash flow. The don't have to do anything, just collect the money. It does indicate there are things that are happening that are beyond the control of Ontario, but they're getting that benefit.

Give me an example. You put a great deal of store in this tax cut. I did a survey just after January 1 of people who are salaried, and I said to them, "Have you noticed any difference in your paycheque? They said, "No, none."

Mr Rollins: The feds took it all.

Mr Kwinter: This is the point. I'm just saying that I went around and I said to them, "When you got your paycheque, was there a change?" They said no. They said it was gone. I'm not condemning anybody, I'm just saying it's a fact of life.

Suddenly, everything seems to be a tribute. Things are great and the reason they're great is because there's a tax cut. People have got more money in their jeans, as I've heard someone talk about. When you ask them, they say: "I didn't get a tax cut. My provincial income tax portion went down, but the other things went up. I may have got a tax cut in theory, but in practice, the money that I've got is the same."

Mr Ron Johnson (Brantford): Nobody's saying it's just a tax cut. It's a package under this government.

Mr Kwinter: There is no question that had the tax cut not come in, their situation would have been a lot worse, no question about that, but what I'm saying is that there doesn't seem to be a real benefit to date. As you say, there is empirical proof that whatever benefits some people get, they're paying down debt or they're topping up savings, and that's not coming into the economy either. I just want to raise these concerns and get your comments on them.

Ms Croft: First of all, in terms of Ontario benefitting from things that are happening outside its borders, I would argue that while Alberta has benefited from $25 oil, Alberta embarked on this program of cutting spending and getting their fiscal house in order well before Ontario did and in a much more dramatic fashion. Alberta perhaps is Ontario two or three years down the road. We may find ourselves in the same situation, with an embarrassment of riches that we don't know what to do with, hopefully.

I don't think we can entirely say that what's happening in Ontario is not due to what's happening in this province, and then looking at Alberta. I think we just have to be clear about the timing of these things. Alberta and the western provinces adapted this deficit-cutting program well ahead of Ontario. I think perhaps the fact that our economy has lagged the western provinces may have something to do with the fact that we only got serious about deficit cutting several years after they did.

I do think what's happening in the province is positive. I hope you didn't get the impression that I think it's all due to a tax cut.

Mr Gerretsen: They certainly think so.

Ms Croft: Well, in terms of the impact to people's bottom line, it isn't significant right now because of what happened at the federal government. That's a whole other issue for Canada. We can't have one hand taking away and the other hand giving. Perhaps what it does argue for is implementing the remainder of the tax cut sooner rather than later.

Mr Martin: I wanted to follow up on the small business discussion as well, being as you referenced it in your answer to my last question, the fact that more people are looking at self-employment and small business as a way to grab a piece of the action that's out there.

Bankruptcies are at a record high. I suggest it's probably because more people are taking more risk and actually wanting to do that, which indicates that people do want to work, people do want to be part of the action, but the situation is such that it's very difficult.

On the one hand, it's really complicated to get into business. As a person who just lost their job, with a little bit of savings, expecting to get into a business and make it successful, there are a lot of people out there who can tell you some pretty sad stories about that.

On the other hand, we hear a lot about government regulation and red tape. What I've run into in trying to help some of the small business people in my community is not so much government regulation and tape as corporate regulation and tape. I just went through some very difficult times with a number of franchisees in my community who just could not make ends meet because of what was being imposed on them re the whole question of kickbacks and paying for shelf space and all that kind of thing. I know right now we're focussing on government regulation and red tape. Is there anybody looking at the question of corporate regulation and red tape and the impact that has on the ability of people to actually get into small business and make a profit in Ontario and Canada?

Ms Croft: It's an interesting question, but again I would have to say it's one for Catherine Swift as opposed to myself. I'm not that familiar with some of the hurdles on that side that small business is facing and whether, as you indicated, that's perhaps more considerable than government regulations. That's an interesting question, but again, I'm sorry I don't have the expertise to answer that one.

Mr Martin: I believe it's something we really do need to look at, particularly if we're holding that out as a panacea or a major opportunity for people when in fact it's —

Ms Croft: Right. Let's hear it from them: What are the obstacles?

The Chair: Thank you, Ms Croft, for appearing before the committee again this year. We appreciate your taking the time out of your obviously busy schedule to share with us your thoughts.

If I could have the committee's attention for just one moment, one small piece of housekeeping is standing order 127. If there are any votes in the House during the committee hearings, I will continue with the witnesses until there are about three to five minutes to go before the vote takes place in the chamber, at which time we will recess. I believe that will give us time to get to the chamber for votes if that in fact becomes the case; just so you know what our procedure will be.

If there are no comments on that, we will recess until 3:30 this afternoon. I would ask you to be prompt. We have a full schedule this afternoon.

The committee recessed from 1156 to 1537.

CANADIAN FEDERATION OF STUDENTS — ONTARIO

The Chair: I call the meeting to order, seeing a quorum. We welcome the Canadian Federation of Students, Ontario division. Mr Hashemi and Ms Smallman, welcome to the committee. We have half an hour to spend together. The committee will operate from this time on. If you would like to take the first part of your time with a presentation, perhaps the committee could ask you questions in rotation. Your rotation will begin with the official opposition, the Liberal Party. Please proceed. Would you identify yourself for Hansard as well as you begin to speak.

Ms Vicky Smallman: Certainly. Thanks for the opportunity to present to the committee. My name is Vicky Smallman. I'm the chairperson of the Ontario component of the Canadian Federation of Students. With me is Ashkan Hashemi, our researcher.

The Canadian Federation of Students represents over 110,000 college and university students in the province. We represent both graduate and undergraduate students at about 20 universities and colleges from Thunder Bay to Ottawa and down to Windsor. We've been in existence as a student organization for 20 years in the province. Our mandate essentially is to advocate for the preservation and enhancement of accessible quality public post-secondary education in the province and it's in that spirit that we come to speak to you today.

I think we all recognize the importance of post-secondary education to the economic, social and cultural health of our province. It's especially important in this climate, as we approach the millennium, as we enter the information age, that we know that knowledge indeed is power and that our economic wellbeing relies on having a strong, accessible public post-secondary education system which will allow for the production of citizens who can think critically, who can communicate effectively, who have a variety of skills and knowledge and abilities and can adapt in an ever-changing situation both in the workplace and outside of it.

Our presentation and the recommendations we're making to the committee are essentially based upon two things: our brief to the advisory panel on post-secondary education, which we presented in October, and the recommendations of the Ontario Coalition for Post-secondary Education, a group that we helped cofound. We've given you a copy of our paper, Future Goals for Ontario Colleges and Universities: An Alternative Vision, which we presented to the Minister of Education on December 16, at the same time the Smith panel reported. We're taking most of our recommendations from that.

I'll touch on a few areas: (1) funding, (2) research, (3) tuition fees, and (4) student aid.

In terms of funding for post-secondary education, if we can all agree that post-secondary education is extremely important to the economic health of our province, then the pattern of increasing divestment of government responsibility for funding post-secondary education over the last several years is somewhat contradictory. We feel that it really puts our system and our province at considerable risk and we worry about our ability to compete and work effectively as a province.

Some stats: Last year's cut of $400 million was the largest cut ever to the post-secondary system. It was a 15% cut. This year we have seen some movement towards more stable funding. We've seen a freeze, so that is no further cuts for the next year, but we feel this is not adequate in addressing the funding problems and the funding crisis in the post-secondary sector. There have been several years of underfunding and the cumulative effect of this on the quality of education has been

devastating. Right now Ontario ranks last of all of the provinces in providing public funding for post-secondary education and it also does not meet standards if you compare it to the funding of public post-secondary education in the States.

Earlier this week Premier Harris made some comments about the quality of our college system and said that we had the best college system in North America. Unfortunately it certainly would be difficult to maintain that at the level of funding we have now. In fact, because we rank last in funding for PSE in Canada, I beg to differ with his comments.

The net result of this crisis in underfunding is a drop in the quality of education and a potential for the loss of economic competitiveness. Our recommendation to the committee is to restore the $400 million in cuts and work towards building us up to the national average in terms of funding. We also need to recognize that we have already met the mandate in the Common Sense Revolution in terms of the proportion tuition fees should play in the total funding. I'll get to that in just a moment.

In terms of research, I'm not going to talk very long about this because you will hear at length about research from our coalition partners in the Ontario Confederation of University Faculty Associations, and we certainly would urge you to pay very close attention to what they have to say about it. They are the researchers, after all, and we support their point of view on the need for increasing research funding. But we need to take a look at how we are providing research funding for post-secondary education.

We need to recognize that research is inherently connected with teaching. You cannot separate the two by having a separate research envelope. If you want quality research, you need to be able to provide for research through operating grants. If the government seriously wants to make a commitment to enhancing research and development in the province, it needs to do so through an investment in the operating budgets of our post-secondary institutions.

Regarding tuition fees, one of the results of declining government funding has been massive increases in tuition beyond any inflationary or other reasonable guidelines. There is no real reason for the increases in tuition except for declining government funding.

A few statistics: If we include the 10% discretionary increase that was just announced last week, tuition fees will have increased over 200% since 1982-83 and over 140% in the last 10 years alone. This is a staggering statistic. Last year's increase of 20% for universities and 15% for college students was the largest single-year increase in the history of Ontario. As far back as 1986, increases in tuition have exceeded increases in the cost of living. Since 1986 the CPI has stayed at or well below 2% while tuition has increased anywhere from 7% to 10%.

These massive increases in tuition have been happening at the same time as savings and incomes for families have been declining. It doesn't really make any sense, and students as a group are at the end of their rope in terms of being able to accommodate these increases. Many people are being forced to question the logic of post-secondary education in terms of their life. I don't think that in the long run this will help the economic or social health of the province.

We have an erosion of accessibility. We have massive debt loads. The average debt load of students right now is sitting at $24,000. So there's both a human cost and an economic cost to increases in tuition in that it doesn't make a lot of economic sense to saddle people with massive debts early on in their careers, to take out a mortgage on their future, essentially. It doesn't make any sense to us, common or otherwise.

Our recommendation then is an immediate tuition freeze, and I realize this contradicts last week's announcement, but we still hold out hope that this can be accomplished, as it has been in other provinces. We'd also like to see an increased reduction of economic barriers to post-secondary education. That includes perhaps looking at job creation for summer jobs, looking again at vacancy decontrol, which is posing some risks in terms of ability to find affordable housing, increases in the availability of child care and other economic barriers.

We also will remind you of the platform of the Progressive Conservative Party in the Common Sense Revolution, which said that 25% of operating revenues for post-secondary institutions should come from tuition. We are now sitting at 34%. We have exceeded it quite considerably and this is even before next year's tuition increase.

In terms of student assistance, we recognize that the government has announced a number of student assistance ventures, including the Ontario student opportunity trust fund and the Ontario merit scholarships, but we don't see this as a substitute or justification for imposing higher fees. Because these types of scholarship plans only benefit a small percentage of the student population, we still have the problem of increasing debt loads, which are higher in Ontario than anywhere else in North America, including private universities in the States. Students at Ontario universities are borrowing more than students who attend private universities in the US.

The options that have been put forward by the government, including income-contingent loan repayment plans, unfortunately will only serve to increase the amount of debt that students take out. We'd like to see the government to set up a working group to look at constructive ways of reforming student aid which will not end up saddling students with even more debt, because we do not think this will be healthy in the long run for our province.

You may ask, how are we going to afford all these things, Vicky? We have to say that we feel it is the time to re-evaluate the logic of the tax cut. We have a mandate from our membership to say this. We had some discussion about the tax cut at our general meeting in Hamilton in January and a resolution directing me to come to you and say: "It's time to look at the tax cut and see whether it's really worth the sacrifices in some of our social programs, including post-secondary education," and it passed unanimously.

We feel that there needs to be a shift in government priorities. The cuts to post-secondary education are a political decision. If the government is serious about

maintaining the economic health of the province, post-secondary education must be a priority and we feel that this shift in priorities is necessary. Thanks.

1550

Mr Kwinter: This morning we had a presentation by an economist, and one of her comments was that industry and business were complaining that there was a mismatch in the skills that graduates have and their needs. Last week there was an announcement by the high-tech sector in Ottawa that there were 2,000 jobs going begging. They're moving them to Halifax. Do you feel that this is a direct result of reduced funding, or does the whole curriculum and what we teach have to be changed? From a student's perspective, are the students happy with what they're being taught? Is it a funding issue or is it a curriculum issue?

Ms Smallman: I think the erosion of the quality of education, the inability of our institutions to really keep up with the times, is a direct result of the crisis in funding. It's very difficult for institutions to get the right resources, to be able to hire qualified instructors who are up in the skills, to be able to get the right kind of equipment and that type of thing. It's very difficult for institutions to manage in this climate of decreased funding.

We also have to recognize that universities in particular do more than just produce people with marketable skills, and I think industry also has to recognize that it has a certain role to play in training people. We need to recognize that quality education, particularly quality undergraduate education, will produce people who are flexible, who are adaptable.

The skills that are needed and the equipment that we need people trained on change all the time and it's very difficult to expect post-secondary institutions to be able to do this. I think industry has a certain role to play in making sure its employees are trained as well.

What we need to do is sit down and look at the logic of the whole system, but because of the crisis in underfunding and because of the crisis in employment people are becoming a little bit more narrow-minded in what they expect from post-secondary education. I don't think there's one panacea to the problem, but we have to recognize that we need general education as much as we need people with specific skills. Yes, funding is definitely an issue.

Mr Martin: Certainly I heard loud and clear your call for the government to reconsider the tax break. This morning we had a couple of economists here who work for some fairly reputable financial institutions in the country who are saying the exact opposite, that the economy is strong and it will continue to be strong as long as certain things happen: they continue to cut the funding of government-funded programs, ie, education and contributing money to students who want to access that, and they continue to cut taxes.

Certainly that's not the position of our party in this. I think it will lead, down the road, to a diminishing of the foundation upon which this good economy is built.

Interjections.

Ms Smallman: Sorry, guys, I can't actually hear his questions.

Mr Martin: In my opinion, if you take away from the education system, you don't have more people in it, you don't have more people participating and learning the new skills, the good economy, the foundation upon which it is built, will be diminished and we'll end up eventually with a two-tiered system of education. To what extent is that happening now?

Ms Smallman: I think it is already happening in the call from the universities for deregulated tuition, differential fees. They want to be able to charge different fees for different programs. This is creating a two-tiered system within our public institutions because some programs are out of reach financially for certain types of people. Also, a lot of the incentives in terms of the matched funds program, the Ontario student opportunity trust fund and other types of proposed initiatives for fund-raising ultimately will privilege more élite institutions like the University of Toronto and Queen's, which already have substantial endowments and are quickly moving towards, I think, a more privatized state. What really worries me is that they're doing so on the backs of taxpayers — you know, contributions to post-secondary education over the last several decades — and I think this is really irresponsible.

In terms of what the economists say, there are plenty of differing opinions in the world of economics. I just draw the committee's attention to a study conducted by Atif Kubursi, a reputable economist teaching at McMaster University, who says that for every dollar of government money that is spent on universities, $4 is put back into the economy. I think that takes us a long way.

We also have to look at the contribution of our institutions to local economies in terms of supporting small businesses and this type of thing. If students are financially strapped, they cannot contribute effectively to a local economy, and graduates who are saddled with large debts even before they start working will never be able to do things like purchase houses or that type of thing. So ultimately, in the long run, I wonder whether this will be healthy for us.

Mr Martin: What is the general psychological health of the student population today? Are they hopeful? Are they excited? Are they participating fully?

Ms Smallman: No. Students are not able to get as much out of their education as they used to be, because many of them are working, either full-time or part-time, while they're in school taking a full course load. This doesn't allow them to really participate in campus life, to do the traditional student things that we used to be able to do.

Many of them are supporting families. The faces of students are changing. We have students who are parents, struggling to support their families as well as maintain a full course load. They're also facing a really dismal employment market. There may be certain types of jobs in Halifax, but there is also an 18% unemployment rate for youth. Right? Students are looking ahead at what's coming and they're not seeing very good things, which is why many of them are deciding not to pursue a post-secondary education. They just can't take the risk. The sticker shock that's associated with high tuition and high debt loads is incredible and that's something we need to pay attention to.

Ms Bassett: Thank you so much for your presentation. It's always fascinating to be brought in touch with some of the problems you're facing on a day-to-day level. I wanted to just make perfectly clear, though, that as members of the Mike Harris government, we feel very strongly that university education is of vital importance to our youth today, and we also feel that we should make the opportunity to everyone to at least get that education.

That said, the question is, how are we going to fund it? Before I get to my question, I just want to make it clear that I've been working with the federal government to make sure the income-loan contingency program is brought in. We are working on it, and in a letter the Minister of Education sent to the federal government he said: "Loan repayments should be geared to an individual's post-graduation income. Consequently, no student should be asked to repay more than he or she can afford."

I heard what you said but what I want to ask is, do you feel that government spending has to be brought under control at this time in order to ensure that funding continues to be available in the future for your universities?

1600

Ms Smallman: I don't subscribe to the belief that our economic problems are caused by spending on social programs. I would refer to the Statistics Canada study that said that only 6% of the deficit is caused by spending on social programs. I think we all recognize that we do need to be responsible in our financial management, but I think we also need to make sure we don't do that at the expense of institutions that Canadians fundamentally believe in.

Ms Bassett: You're saying that universities should have a bigger slice of the pie, or we should consider doing that.

Ms Smallman: I don't think it's just universities. I would make the same argument for health care and social assistance. I do not see that as being the reason, and there are studies that supplement this. I'm not just saying this for purely ideological reasons. I believe there is evidence to support this. I do not accept that spending on education, health care and social assistance is responsible for our problems that we are incurring today. We need to look at other avenues for dealing with the revenue problems of the government.

That's why I can't accept the logic of the tax cut, because it doesn't privilege me as a student. I think my tax cut will work out to maybe about 30 bucks. It does not even compare to the amount of extra tuition I've had to pay, as well as user fees, books and that type of thing.

Ms Bassett: That may be so, but Patti Croft of Canada Trust pointed out today that the tax cut had a direct impact on stimulating the — all I'm saying is that there are different points of view.

Ms Smallman: But it will only really benefit one segment of the population is what I'm saying. I don't feel that it should be done at the expense of all these other things.

Ms Bassett: Okay.

Ms Smallman: It doesn't make sense. There are all kinds of things that have happened in the last year that have really hurt accessibility. I have a really hard time accepting the government's claim that it values access to post-secondary education when child care bursaries have been eliminated for students who have fewer than three children. That doesn't cost a lot of money for the government, but it means a lot to a woman who is a single mother, who has a child and wants to get out of the welfare trap and get an education.

Ms Bassett: Of course.

Ms Smallman: That's one thing that doesn't cost a lot of money that the government could do.

Ms Bassett: Just on the tax cut, I must say 91% of all taxpayers will see an Ontario tax cut of 30% or greater. So the tax cut you refer to doesn't just refer to the so-called rich. Some 9% of people are the only ones you would be referring to; 91% of people are going to get a benefit.

Ms Smallman: At the same time, we're paying 30% more in tuition, which costs a lot more than our tax cut. We're also seeing single mothers who are students cut off from social assistance and family benefits. So at what price? It's not worth it for us. It's not worth it for the vast majority, I think, of Ontarians who are under 35. It's not going to help. I would reiterate it will hurt us, I think, economically in the long run.

Ms Bassett: Thanks for pointing it out.

The Chair: That concludes our time. Ms Smallman and Mr Hashemi, thank you very much for coming in and presenting to the committee. We appreciate your views.

ONTARIO ROAD BUILDERS' ASSOCIATION

The Chair: We now have the Ontario Road Builders' Association, Rob Bradford. Welcome to the committee, Mr Bradford. I understand you had very short notice because of a cancellation. We appreciate your flexibility.

Interjections.

The Chair: I ask the committee to be aware that this room is very difficult. The noise carries greatly in this room and I would ask you out of respect for our witnesses to keep your personal conversations to a minimum.

Mr Bradford, we have 30 minutes together. If you would like to use part of that time for a presentation, we will use the rest of your time with questions. The rotation will begin with the third party.

Mr Rob Bradford: Thanks very much, Mr Chairman and members of the committee. As you mentioned, we are here on rather short notice and we appreciate the opportunity of being here. For that reason, I may be reading a little more than I should, but you have our presentation in front of you.

A brief background: Our association was formed in 1927 and we represent virtually all of the major contracting firms across the province that maintain and build our highways and municipal roads. We're an industry of a few larger companies with many employees and many smaller companies providing employment in the very communities across Ontario where jobs are most desperately needed.

I'm going to offer you our perspective today on some of the very difficult choices that the government has ahead of it in preparing the 1997 budget. This perspective

obviously will reflect the interests of our member companies, but I hope to be able to show you that context is compatible with and in fact complementary to the overall objectives of the government and taxpayers. I would suggest at the outset that our association and I believe the majority of our industry strongly supports the direction that the government has taken and we certainly commend the determination it has to proceed on the course it has set. I don't think some of the things I'm going to be saying today contradict any of those objectives. We do, however, believe that a commitment to investment in the province's roads infrastructure should be a priority consideration in the upcoming budget deliberations.

In the next few minutes I'll very briefly review the importance of a strong commitment to infrastructure investment, I will discuss some of our views on the level of commitment that's required and, finally, I'd just like to touch on some concerns that have recently come to light for our industry regarding the transfer of financial responsibility for thousands of kilometres of roads to municipalities in Ontario.

Investment in Ontario's roads infrastructure is a prerequisite to private sector competitiveness, growth and expansion. It creates good jobs and supports international and domestic trade. Sixty-one per cent of Ontario's goods and services as a percentage of GDP are exported and over 75% of the goods exported are moved on our road systems. It's interesting to note that the Detroit-Windsor corridor is the single largest corridor for international trade in the world.

In the growing global economy environment, successful companies are those which will be able to produce and deliver goods cost-effectively and efficiently, and for the foreseeable future I would suggest that they will require superior roads systems to do that. Other of our major trading partners, such as Mexico and the United States, are investing heavily in their highway systems to enhance competitive advantage. A bill before the US Congress, just as an example, would set aside $6.5 billion for national highway system improvements.

In the globally competitive environment, Ontario businesses must be able to move goods and materials to factories to meet just-in-time inventory requirements. They must be able to move finished goods to market quickly and cost-effectively. Economic growth in Ontario is dependent upon private sector productivity and competitive capability, and one of the fundamental criteria for that competitive ability is a superior roads infrastructure. Companies assessing locations for potential capital investment rate the capacity and condition of local roads and highways at or near the top of their list of requirements.

I'll digress for just a second, because there's an interesting little anecdote that goes along with that one. I had the opportunity this summer to briefly meet Mr Ivan Grose, the member of Parliament from Oshawa, and he told me about a company from Japan — and this just happened this summer — that was considering setting up an auto parts support plant in the Whitby area. The people who were looking to make that deal came to Toronto one Thursday afternoon. They tried to get to Whitby from the airport in rush hour, and they never bothered finishing the trip. Mr Grose swears this is a true story, and I would assume it is. We lost a new auto parts plant because they couldn't get across the 401.

1610

Investment in Ontario's roads infrastructure also contributes significantly to the province's economic progress by creating jobs which pay well above the national average industrial wage and by providing varied and rewarding professional career opportunities. Employment created in building and maintaining roads is not short-term or temporary jobs as critics of infrastructure investment might suggest, and they often do suggest that. While a single project has a defined and relatively short lifespan, an ongoing program of infrastructure investment develops a pool of professional and skilled jobs across the province. Road building is a labour-intensive industry and a relatively high percentage of the dollars spent on roads infrastructure is applied to paying wages and salaries.

Apart from the important economic reasons for commitment to infrastructure investment, there are also other significant benefits, and I won't dwell on them too much today because this is the standing committee on economic affairs, but you've also got to consider the benefits such as enhanced public safety, reduced cost to the road user and reduction of hazardous emissions from vehicles that are locked in traffic gridlock.

Turning to the current status of Ontario's roads infrastructure, there are two aspects to investing in that infrastructure: one is the investment in maintenance of the existing system and the other is capital investment in the expansion of the system. With respect to maintaining the existing system, for over 20 years our investment has steadily declined and the condition of Ontario's roads has deteriorated to, in many cases, unacceptable standards. We've all read the Ontario Auditor General's report from 1995, and I'm going to quote a few things again from it today because nothing has changed. The Auditor General noted that almost 60% of the system was in "poor" or "substandard" condition. That hasn't changed.

The Ontario roads system is a valuable public asset. Inadequate investment in maintaining the system not only erodes the value of the asset but also creates a new and disproportionately large public liability in a very short period of time when preventive maintenance options are no longer available.

The Auditor General identified both the fact and the consequences of underfunding for highway maintenance. We echo his warning that unless action is taken to reverse many years of underfunding, "the condition of the infrastructure will continue to deteriorate to the point where a massive and costly reconstruction effort will become necessary." They've just run up against that in the city of Los Angeles where they've had to quadruple their annual budget, and they suspect, if they're lucky, in 30 years they might get their roads back to an acceptable condition. Understanding that, then, continued underfunding is an irresponsible course of action.

The cost of basic preventive maintenance of an asphalt highway is between $500 and $1,000 per lane kilometre. If you don't do that maintenance when it becomes necessary, the cost rises to $80,000 per lane kilometre because you're now in the rehabilitation stage. If you

don't do that rehabilitation when it's necessary, and if you did do it you could add another 10 to 12 years to the life of the pavement, but if you let it go a couple more years you're into a quarter of a million dollars per lane kilometre for reconstruction, and that's what I'm referring to when I'm talking about this new public liability that we're building for ourselves.

Ontario has adopted a very minimalist preventive maintenance strategy to maintain the average life of the current road system at 12 years. I understand that this is occurring in light of the current fiscal environment and, in that light, for a very short period of time, it may not be a bad strategy; at least there's attention being paid to maintaining our roads at a certain level. The most cost-effective target is eight years, but even to meet the Ministry of Transportation's strategy, spending of about \$580 million per year is required. We have not been meeting this minimum target. Last year the government did show an increased commitment to roads maintenance but moneys allocated to maintenance didn't come anywhere close to \$580 million.

The other half of the infrastructure investment picture is capital investment in expansion of the roads system. Here again, we have been falling behind for over two decades and we face, literally, a capacity crisis today. Today, in 1997, plans for new roads and highways are virtually non-existent and we face serious erosion of our competitive position. There are all kinds of statistics on that. I won't throw too many out here but maybe we should note that in the last 20 years the total kilometres of Ontario roads increased by 4.3% while the number of registered vehicles rose by 97%.

A 1988 study showed that in the Metro Toronto area of the 2.3 million vehicle trips per day over 340,000 were truck trips. I believe that's about 13%. In the greater Toronto area, the number of truck trips per day was almost 700,000. So fully 30% of the annual truck shipping costs in the GTA — over \$2 billion per year — is directly attributable to the undercapacity of the roads system. A similar study showed costs due to congestion in the national capital region were about \$500 million per year.

A final point we'd like to raise with the committee with respect to ensuring that Ontario's roads infrastructure is able to serve the province's public interests is that of the transfer of large portions of the provincial road system to municipalities. Some 1,700 kilometres have been transferred or identified for transfer and estimates of stated intentions to transfer more in the future range from 4,000 to 9,000 kilometres. We could conceivably see almost one third of the roads which were formerly considered provincial responsibility being managed and financed by local levels of government.

This process of transferring responsibility for roads is going to lead to a fragmented approach and the resulting huge challenge in maintaining uniform standards for roads going through more than one municipality. This in itself is a concern, but the issue to be raised with this committee and to be addressed in the budget is a financial one. How will the municipalities pay for bringing the transferred roads up to acceptable standards? Do the municipalities have the financial resources with which to maintain them to acceptable standards?

Faced with new costs for local roads infrastructure and competing demands for shrinking dollars from other municipal service areas, some municipalities will find it politically expedient to delay or even ignore the basic investment requirements of the system. This has already occurred in Ontario and we haven't even reached the point yet where these road transfers have taken place. We have one municipality about an hour's drive north of Toronto that last year just said: "We don't have a roads program this year. There's no money." You're getting yourself right into that situation I discussed earlier: Pay me a dollar now or pay me \$80 a couple of years from now when there's no choice.

Regardless of who pays for individual roads, they are still components of an integrated roads system. If the components are allowed to collapse at the local level through lack of investment, the entire system will suffer.

To summarize then, if one accepts the strategic importance of Ontario's roads infrastructure to the economic success of the province and that the existing roads system has fallen into a pattern of chronic deterioration from underfunding, then the government must recognize the need to allocate adequate funds to move the system to acceptable standards.

The Auditor General says even a minimalist preventive maintenance strategy costs \$580 million per year and that should be the absolute minimum amount made available to the Ministry of Transportation for road maintenance this year. As well, we can no longer delay investing in capital construction of new roads and highways and funding also has to be made available for this purpose.

We would also urge the government to begin planning the financing of infrastructure investment on a multi-year basis. Under the current practice, each year our industry must wait until the spring budget is handed down before any decisions are made about the current year roads program. For an industry that has a window of about eight months in which to complete work every year, it's extremely counterproductive to wait until May or June before the year's intentions become known. A multi-year commitment would allow the industry to begin putting together the required workforce, materials and equipment early in the year and the public would benefit from the resulting efficiencies.

On the matter of transferring responsibilities for roads, we also urge the government to either upgrade the roads in question to acceptable standards prior to transferring them or to provide separate specific funding so that municipalities may at least start out without the additional burden of transferred liabilities. To ensure that the provincial roads system is maintained to appropriate standards, the government must also ensure that municipalities have the financial resources required to meet their new responsibilities.

As I noted at the beginning, we do support fully the government's economic objectives and I trust that the government will recognize the very integral role which investment in our roads infrastructure can and does play in the fulfilment of those goals.

1620

Mr Martin: You certainly make a good case for investing in our roads. I don't think there's anybody who has looked at the economy of this province who won't agree that a good road infrastructure is one of the things that attracts investment to Ontario. I would certainly support that contention. However, your statement twice in the paper about investment in good roads and maintaining good roads and the negative impact that the downloading of the cost of maintaining a whole whack of roads to municipalities will have is actually not in keeping with the economic objectives of the Ontario government.

This morning we heard very clearly from a couple of the economists after the deputy minister spoke that the program of this government is actually very simple and twofold: to cut taxes and to cut the cost of government, which means to cut the amount of money that's spent on things like maintaining roads, and that if the government continues down that track, everything will be better; we're to believe it will be better.

Do you think it will be better if that's the track that we continue on? How does maintaining good roads and a good road infrastructure fit into an agenda which is very simply, "Cut taxes and cut government spending"?

Mr Bradford: One of the reasons I'm here today, Mr Martin, is hopefully to help the government understand that a financial commitment to roads will help it achieve its objectives. This government, as I said, last year showed a renewed commitment to roads infrastructure. Unfortunately, it's not quite at the levels we need. I am hoping the government will understand the importance and will show that they understand that in the coming budget.

Mr Martin: I would just make the point that not only did they not meet the standard that you set, but they didn't even meet the minimum standard, according to your paper here, that you said was required.

Mr Bradford: That is true.

Mr Martin: In the long run, as you say, "Pay me $1 now or $80 later." That in fact is what's going to happen.

Mr Bradford: If it carries on like that, we are in trouble.

Mr Martin: So what we're doing is moving a cost on to the shoulders of future governments or future generations of people to reclaim or rebuild or maintain that road system.

Mr Bradford: That's exactly what we would be doing if we did not show the proper commitment at this time, yes.

Mr Rollins: Thanks for bringing some of these things to our attention. I'd like to point out that the last five years, the dollars that were spent on the rehabilitation of the roads were some $240 million. Last year we raised that number to $375 million. True, it has not got to the numbers that you request, but also the last government in the last five years cut the road budgets and also raised taxes. In fairness to Mr Martin's question over there, I know that's the optimum to get to that level. At $375 million a year, if we can maintain that for the next three or four years, can we still hold our roads close, regardless of what the auditor has to say?

Mr Bradford: I don't believe so, sir, because I believe the auditor was using real numbers. The auditor knows it will cost $580 million a year to keep the roads at a 12-year-average age, and that is a very minimal strategy. If you don't meet that strategy, you're into some of those scenarios that I talked about very close down the road.

Mr Rollins: I want to share my time with one of the others.

Mr Jim Brown: Each year Ontario motorists contribute about $2 billion in gas tax to the federal government and we don't get anything back. The municipalities don't — we just don't get any of that money back. Have you made a pitch to the federal government, similar depositions to the federal government?

Mr Bradford: Yes, we certainly have, sir. We were part of the Roads Work for Canada campaign during the summertime that called for two cents a litre of the federal gas tax to be put directly to a national highway system, and we're working very closely with our counterparts, the Coalition to Renew Canada's Infrastructure in Ottawa, to press that point. It's a priority for our association.

Mr Jim Brown: Do things look hopeful from your point of view?

Mr Bradford: No, they don't.

Mr Hudak: Is there time, Chair?

The Chair: Yes, you've got about two minutes.

Mr Hudak: Great. I'm sorry to hear that too, because I brought forward a private member's resolution on just that in the Legislature, as you probably remember.

Mr Bradford: Yes, I'm quite aware of that. You've been a big help in that battle. Thank you.

Mr Hudak: It's been a pleasure. I think it's an excellent idea.

I had a quick question for you too, your thoughts on this. I don't know the minister's stance, but I know some of the members have talked about when we're building new infrastructure, and you mention the need for more infrastructure in addition to keeping what we currently have in good condition. What's the position of the roads association on toll roads when you increase the number of highways across the province?

Mr Bradford: Our position as of February 12, 1997, is that toll roads used under the conditions that were used for Highway 407, with the caveats that there is a public alternative and that it is a new road being built — our association supports tolling for situations such as that.

Mr Cordiano: I just want to go back to your concern with respect to this government's dumping on to municipalities additional costs, particularly for the transfer of provincial highways. We have estimated that the total cost to municipalities will be somewhere in the neighbourhood of $1 billion. Of that, there will be an additional $100-million burden to municipalities for roads that are transferred to municipalities. That's $100 million which this government has not accounted for in terms of transferring costs, so that's an additional burden to municipalities that they now do not have the funding for. That's an additional $100 million that they will have to provide for in their own budgets. I see that you are concerned about that.

I would also like to point out that this government's capital budgeting has been reduced from where it was in

1995-96, from about $3.5 billion in all capital expenditures down to $2.7 billion for this current fiscal year, 1996-97, and will be further reduced in fiscal years 1997-98 and 1998-99 to $2.2 billion. You're getting a reduction of almost half of what used to be spent in capital by this provincial government. Inevitably roads will be affected by that reduction in expenditure for capital expenses that the government used to provide and now no longer will provide for. How does your association feel about that reduction in capital spending on the part of the Ontario government? It puts a crimp in terms of the government's plans to build any real infrastructure. It's almost half of what it used to be.

Mr Bradford: Our interests, sir, are directly related to the part of the capital spending that the government allocates to roads, and certainly if we see a decline or an erosion in those types of capital spending, yes, we will have concern and we will make our concerns known.

The Chair: I would ask the government caucus to watch their conversations. The noise just bounces around in here and it's very distracting for the witness. Thank you very much.

Mr Cordiano: The government's own forecasts — they savagely cut with respect to the transportation budget. In 1995-96 there was an operating account of $867 million, and in this current fiscal year, 1996-97, it's down to $684 million. That's the operating expense account for the Ministry of Transportation. I don't have the breakdown in terms of the capital account but I gave you the overall numbers in terms of its reductions. The plan that was announced last fall, with reductions in capital expenditures, affected the Ministry of Transportation. So, yes, you've got a reduction in spending in transportation in the capital expenses by $800 million overall, and about $105 million in transportation.

1630

Mr Bradford: We certainly saw last year a greater commitment to capital spending on roads than we've seen in a long time. I think you have to look at the operating costs in the Ministry of Transportation in light of the very major restructuring that's going on with the Ministry of Transportation, where a lot of those operating costs are being transferred to the private sector.

Mr Cordiano: Or to municipalities. Go ahead.

Mr Kwinter: Can you tell me, to your knowledge, what is the total kilometres of roads in Ontario?

Mr Bradford: I can tell you that the total number of kilometres of provincial roads is roughly 30,000. I don't have a figure for the total kilometres.

Mr Kwinter: In your presentation, when you say that some 4,000 to 9,000 kilometres is going to be transferred to the municipalities, is that coming out of the 30,000?

Mr Bradford: Yes. The 30,000 is now down to about 26,000 or 27,000 with previous downloading. That would come out of the 27,000-odd. That's why I say we could end up with a system two thirds the size it used to be.

Mr Kwinter: Exactly: two thirds. There's about a $200-million shortfall per year just to keep your 12-year maintenance standards. Is that correct?

Mr Bradford: That's correct at the present time, yes.

Mr Kwinter: My point is that when these roads, which is a third of the provincial roads serviced, are transferred to municipalities, they're going to have their work cut out for them just maintaining those roads they've got, let alone investing that $200-million shortfall that's going to be apportioned to them, so the chances of that happening are practically zero. Would you agree with that?

Mr Bradford: I wouldn't use figures attached to it, but we said very clearly in my presentation that we have concerns about how municipalities are going to fund their roads in the future. Yes, we have concerns about that. I'm not going to presume at this point to try to say who's telling the truth about whether or not the municipalities are being left without enough money. The government says it's a straight-up deal. I know that other parties would suggest there's a great lacking and that the municipalities are coming out on the raw end of the stick. I don't know enough about the situation to have an opinion on that at the moment.

The Chair: Thank you very much and —

Ms Bassett: Can I just correct the record?

The Chair: No, I'm sorry, you can't. You can correct your own record, but you can't correct someone else's record.

Thank you very much, Mr Bradford, for appearing before the committee today. We appreciate your taking the time out of your schedule, especially on very short notice.

ALLIANCE OF MANUFACTURERS AND EXPORTERS CANADA, ONTARIO DIVISION

The Chair: Our next witness is the Alliance of Manufacturers and Exporters of Canada. I believe it is Mr Collinson and Mr Allinotte, if you would come forward, please. We have half an hour, and if you would like to make a presentation, we will use up any remaining time you have with questions, beginning with the government caucus. When you begin to speak, would you identify yourself, please, for the Hansard records.

Mr John Allinotte: Thank you, Mr Chairman. My name is John Allinotte. I am a director of corporate taxes with Dofasco Inc and the chairman of the Ontario tax committee of the alliance. With me is Mr Collinson, our director of public affairs. We've handed out a written submission that I've taken some excerpts from, which I would like to address to you verbally.

The Alliance of Manufacturers and Exporters of Canada, Ontario division, appreciates the opportunity to provide the committee with its comments and suggestions with respect to the 1997 Ontario budget. The Ontario division is the voice in the areas of fiscal and taxation policy matters for our 2,000 member firms. These member firms produce over 75% of Ontario's manufactured output, which accounts for a large portion of the exported goods from Canada each year.

The alliance congratulates the government for its courage and determination to take quick, incisive action on its agenda of making Ontario more efficient and making Ontario a place where businesses will want to invest, leading to greater employment and economic growth. We applaud the government's resolve to move so

early in its mandate to address the deficit crisis this province finds itself in.

The alliance believes there is a need for a strategy that will restore health to the domestic economy for the long run. Government restructuring must and will continue in the near term, and the alliance affirms the necessity for both budgetary restraints and also for reshaping and reprioritizing government expenditures to ensure that government programs are truly shaped by the needs of the Ontario economy and Ontario businesses.

Debt and deficit reduction are essential, but it will also be necessary to simultaneously take steps to foster capital investment to create the jobs and growth that will spark the domestic economy. In this context, the alliance offers the following specific recommendations to be considered by the government in its deliberations on the 1997 budget.

The government should stay the course on deficit and debt reduction and continue the streamlining of government departments. The program initiatives introduced by the current government to accomplish deficit and debt reduction have provided the Ontario business community with certain confidence in the long-term future of the Ontario economy. It is recommended these initiatives be continued to maintain and even heighten business confidence, which will allow for the desired growth in the provincial economy.

The Ontario government must restore health to the domestic economy for the long-term good of the economy as a whole. Steps must be taken to generate capital investment that will spark the domestic economy by creating jobs and growth.

The Ontario economy has a split personality. The export economy has experienced rapid growth in output, employment and investment during the past six years. The domestic economy, on the other hand, which depends on consumer and government spending, is barely growing at present and is likely to remain weak for several years unless initiatives are introduced to spark capital investment in the province.

Ontario must fill the leadership vacuum and rally and lead the national harmonization of the GST-PST tax system. Sales tax harmonization by Ontario is a matter of great importance to the manufacturers and exporters and the business community of the province of Ontario in general. The plurality of the sales tax regime in Canada is a competitive disadvantage to the firms with a presence in Ontario, and serves as a brake on the domestic economy.

Ontario must fill the leadership vacuum in the harmonization issue and rally and lead the non-harmonized provinces, pressing home the message to both the other provinces and the federal government that the current sales tax situation defies common sense for an industrialized country such as Canada. A unified sales tax system should provide for one tax base with full input tax credit for businesses, which will greatly enhance the competitive position of Canadian business and the health of the domestic economy.

The abolition of the corporate minimum tax: The alliance, as do most businesses in Ontario, recommends the repeal of the Ontario CMT. We believe the policy basis for this tax is flawed and completely out of step with the government's initiatives directed at encouraging businesses to invest in Ontario.

The CMT is totally creditable against payment of corporate income taxes and provides for a 10-year carry-forward. It is the alliance's belief that this tax legislation raises little or no revenue for the government, but simply introduces compliance and administrative costs to both the government and the taxpayer. This tax stands out as a highly visible disincentive to potential business investors as an indication of how investment-friendly a given jurisdiction may be. Given the overall packages of benefits, such as tax holidays, cheaper hydro etc offered by many US states, the CMT may cost Ontario a great deal of investment. The abolition of the CMT would do a great deal to convey the message that Ontario is open for business, with little or no affect on the provincial tax revenue.

Ontario capital tax, a disincentive: As with the CMT, the alliance believes there is no adequate basis in policy for the existence of a tax on capital invested in the province of Ontario. In fact, the pre-election stance of the Harris government was that the capital tax should be creditable against corporate income tax in any given year, which would be greatly preferable to the present state of affairs and would recognize that investment in capital represents a cost of earning income.

The capital tax functions as a disincentive to capital investment at a time when Ontario desperately needs more and is in fact de-capitalizing. The alliance urges the abolition of the tax, or at minimum, make it creditable against the corporate income tax.

1640

Reinstatement of the Ontario current cost adjustment: Capital investment in Ontario, and particularly in the manufacturing sector, remains low, to the extent that Ontario may still probably be de-industrializing; expenditures of new capital equipment below annual depreciation charges.

Many jurisdictions have introduced measures to enhance the level of capital investment. Notable in this regard are many of the northern states which offer specific incentives for expansion or relocation of facilities. Germany as well as some of our sister provinces offer rapid depreciation write-offs for manufacturing and production equipment. The alliance believes that capital expenditures by manufacturers in Ontario would be much higher if incentives were provided which would lower the cost of capital or the magnitude of required debt levels. The alliance believes that the reintroduction of the current cost adjustment or a program similar to that would enhance the capital investment in the province. The result of such an initiative would provide for increased employment and ultimately a net gain in tax revenue.

The R&D superallowance: The Ontario R&D superallowance is a key factor in ensuring that research and development, both by large and small corporations, is carried out within the province. As such, it is a vital aspect of the Ontario tax system. The R&D allowance, in its present form, introduces many complexities in both its calculation and administration by taxpayers and government auditors alike. Many of the complexities encoun-

tered are the in the area of associated company rules, in the apportionment of expenditures within the wholly R&D companies. These aspects and others of the program impose an administrative burden both on the taxpayer and the government alike.

These problems could be resolved with no loss in revenue to the government by changing the R&D super-allowance into a single-rate, non-incremental allowance. The benefit otherwise enjoyed from the incremental allowance could be maintained by simply increasing the rate slightly. This would allow the government and the taxpayer as well to be relieved from the onerous administrative aspects of the super allowance.

Finally, the 5/15.5 add-back on management fees, rents etc: The Ontario Corporations Tax Act requires Ontario taxpayers to include 5/15.5 of management fees, rents, royalties and like payments made to non-arm's-length non-residents to their income for Ontario corporate tax purposes. This effectively increases the after-tax cost of such services for businesses operating in the province of Ontario. I would also add that it's not suffered by companies operating in any other province in Canada.

In the opinion of the alliance, there is little policy justification for any aspect of this additional tax cost. The elimination of the add-back would greatly improve the competitive position of Ontario relative to any other jurisdiction within NAFTA and areas that have no similar tax legislation.

The Vice-Chair (Mr Tim Hudak): Thank you, Mr Allinotte. Mr Collinson, anything further?

Mr Brian Collinson: I think, Mr Chairman, that Mr Allinotte has covered the major points we wanted to make today.

The Vice-Chair: Very good. That leaves the committee about four minutes each for questions.

Mr Wettlaufer: Welcome, gentlemen. Thank you for appearing before the committee. I notice that in the written handout you've given us that you have noted that the reduction of personal income tax has "the positive effect of reducing the 'brain drain' of highly skilled technical and managerial personnel from industry." I think, generally speaking, you would agree that the policies of the government have been to increase jobs generally, not just in the highly skilled industry.

The points that you made about the abolition of the CMT and the capital tax, would you have any suggestions on the number of jobs which could be created from that?

Mr Collinson: It's hard to come up with a precise number on the spur of the moment. We believe the number of jobs would be significant. Certainly I think what we should do is make a commitment to the committee, if we might, to have our economist, Jayson Myers, provide you with his estimate of the exact number of those jobs.

Mr Wettlaufer: We'd appreciate that.

Mr Ford: Gentlemen, if the government didn't try to reduce the deficit, how would this affect business and communities? So much of Ontario's business community is dependent on exports. What would be the impact of increasing deficits?

Mr Allinotte: One of the main factors it affects is the cost of capital to us to refurbish our manufacturing and processing plants. To get that capital at the high cost of interest rates when we're competing with the government debt out there is very significant.

Mr Ford: There's a lot of investment going on right now in Ontario in new machinery and different things of that nature.

Mr Allinotte: A lot relative to what?

Mr Ford: The past.

Mr Allinotte: I would agree in the last five to eight years, but Ontario has enjoyed capital investment in the last 25 years that was not enjoyed by any other jurisdiction, I would hazard a guess, in the world.

Mr Kwinter: The government over the last little while has really been making a big point about how the economy is booming. We had economists in here today who were saying that this is a Cinderella story. Yet in your presentation you say, "It is barely growing at present, and is likely to remain weak for several years." Coupled with that — I just want to refer to the question that was made about employment — in the last quarter there was virtually no increase in manufacturing employment; the quarter before that there was a decrease of 42,000 jobs. So we have a situation where business is pretty good, employment is not increasing — as a matter of fact it's either stagnant or decreasing.

What is going to change that? What is it the government is going to do that's going to improve that situation when arguably business is supposed to be booming and particularly exporters have never had it so good? How do you deal with that?

Mr Collinson: One thing we'd like to point out just in that regard is that we do anticipate the manufacturing sector will add jobs in the coming year. We anticipate there will be somewhere in the vicinity of 25,000 to 30,000 new jobs.

The situation is very much one where we anticipate the export economy will continue to grow at a rate through the next year of very nearly 10%. The difficulty we see has to do with what we view as being a short-term situation regarding restructuring in the corporate sector and also restructuring in government, which has had a deep effect on consumer demand and consumer confidence.

We believe the way to address the present difficulties with regard to consumer confidence and consumer demand is to ensure that the government has programs in place which encourage capital investment in the Ontario economy. It may seem that those two things are disconnected, but we believe that in the long run if there is capital investment it will result in jobs and growth and will ultimately impact on the confidence of the consumer.

I don't think we're anticipating that there's a silver bullet or an absolutely quick fix with regard to this, but we do believe the ultimate future of the consumer side, the domestic side of the economy is one that revolves around investment in the economy as a whole.

Mr Kwinter: Your estimate of 25,000 to 30,000 jobs created next year, is that for Ontario or all of Canada?

Mr Collinson: That estimate would be for all of Canada. We anticipate the majority of those jobs would be created within Ontario.

Mr Kwinter: That's my concern. In the quarter before this one that we just finished, you lost 42,000 jobs just in that quarter. There was no growth in manufacturing jobs in the quarter we just passed, and you're saying that next year for all of Canada you hope to create 25,000 or 30,000 jobs, which means — and I don't have the figures for the first two quarters prior to the 42,000 job losses — no matter what you do, you're going to be employing fewer people next year than you were this year. That is a concern and I'm just trying to understand how that is going to change. It's obviously not going to change, because you're saying 25,000 to 30,000 jobs Canada-wide next year.

1650

Mr Collinson: Certainly we're saying we anticipate growths over the current level in employment, but I would say the situation you're pointing to highlights the dichotomy between the domestic and the export economy and the need to bring in measures that will really begin to move the domestic economy forward. As we say, we believe that some of the problems the domestic economy is encountering have to do with restructuring which is occurring to some extent as a part of government restructuring. We believe that government restructuring is necessary and essential but we believe it will work its way through the economy and that ultimately you'll be looking at a position of more strength in the domestic economy.

Mr Martin: Thank you for coming today. You certainly represent an important element of the Ontario economy and are important to most of the communities that we in this place come from and represent. I'm from Sault Ste Marie and we're still very much dependent on Algoma Steel and St Marys Paper and Agawa Lumber and all that. We appreciate the contribution that your industry makes.

There are economists out there who will say, and actually one of the last points you made was, that we've enjoyed in this province five years of pretty healthy investment. There are economists out there who would suggest the reason people invest in Ontario are many, but primarily because of our health care system, our education system, which provides a highly skilled and motivated workforce and an infrastructure. The fellow who spoke to you before, roads, the ability to get your stuff to market, I know from northern Ontario, if we can't get our stuff to the Midwest US or down here, we're behind the eight ball before we even start, so all that is really important.

The problem, though, is that somebody has to pay for it. There are some out there who will suggest that over the last 10 or 15 years the burden of the cost of those programs that support us all, individuals and industry in the province, has been shifted dramatically to the employee, the ordinary citizen out there, by way of his income tax and not on the corporate sector.

You've come today asking us to even reduce more the contribution by the corporate sector to the maintaining of those services and those things you depend on very much to both attract new opportunity and maintain and grow what's already there. How do you rationalize that?

Mr Allinotte: First of all the items we've asked for reductions on would account for very little or no reduction in tax revenue. We support the government's move to reduce the deficit and balance the budget. The items we've included and asked for changes on to the tax system will lessen the administrative burden but more so the appearance of how friendly Ontario is as a place for business to operate. We don't have to go very far into the United States to find states offering incentives to Canadian companies to set up operations, to take capital out of this province that would have been here if it hadn't been for these incentives.

For us to have a tax system that raises no revenue, in the case of the corporate minimum tax — I'm just a tax person, I don't know the political side of it, but it made no sense at all to introduce a tax that raised no revenue and required the government to go out and hire 300 or 400 more auditors and required me to go out and hire two or three extra people to administer a tax. It doesn't pay for the education; it doesn't pay for the schools we need. In the case of the superallowance, it has done an awful lot to bring research and development work to Ontario by a lot of companies, large companies and small companies.

We are suggesting here again, at no cost to tax revenues, an administrative change that will lessen the burden on the taxpayer and help the government in its initiative to downsize government. Unfortunately, today we get all the government we pay for and then some and we don't need it.

The Vice-Chair: Thanks to the Alliance of Manufacturers and Exporters Canada for your presentation today.

INTERFAITH SOCIAL ASSISTANCE REFORM COALITION

The Vice-Chair: The next group is the Interfaith Social Assistance Reform Association. I have Michael Maher, Gabrielle Mandell and Sister Doryne Kirby. Is it ISARC for short?

Ms Gabrielle Mandell: That's right.

The Vice-Chair: I thought I saw ISARC here last year too. Folks, you have about 30 minutes for your presentation. I see you've brought a copy of your written proposals. If you wouldn't mind just introducing yourselves for Hansard to make sure I had that correct, and then proceed when you're ready.

Brother Michael Maher: Thank you, Mr Chairman. My name is Michael Maher. I'm the briefings coordinator for the ISARC group. With me are Ms Gabrielle Mandell of the Canadian Council for Reform Judaism; and Sister Doryne Kirby, who is the social action director for the Canadian Religious Conference, Ontario region.

We first offer a word of thanks for your willingness to hear in this room perhaps a different kind of tune from all those wonderful economic concerns that have been put, as I've been listening up to this point. Our perspective and our brief are more to do with a perspective from the faith communities of Ontario.

The Interfaith Social Assistance Reform Coalition is a coalition of religious communities that has sought to address the continuing reality of hunger, poverty and

homelessness. Founded in 1986 as part of the Thomson report and the SARC hearings, ISARC has participated in numerous efforts to reform social programs in Ontario and Canada, including one distinctive effort involving the Ontario government in its efforts to acquire funding from federal government for refugees some two years ago. It has also been active in educational efforts to raise awareness among members of religious communities about the challenges facing our communities and ways to respond to our neighbours in need.

The Interfaith Social Assistance Reform Coalition includes representatives from the Ontario Conference of Catholic Bishops, of whom I am one; the United Church of Canada; the Jewish community, including the Canadian Council for Reform Judaism; the Evangelical Lutheran Church in Canada; the Anglican Church of Canada; the Disciples of Christ; Citizens for Public Justice; the Buddhist community; the Canadian Religious Conference, of which Sister Doryne Kirby is a representative; and the Presbyterian Church in Canada. In addition, we omitted from our list the Mennonite Central Committee, the Quakers or Friends and the Unitarian Church.

During the past year ISARC has been monitoring the impact of the changes in public programs that have been affecting low-income people in our communities. Our efforts include not only work with religious leaders but with groups that are on the front end of delivering community services. We have canvassed members of religious communities across the province, and in these conversations one conclusion has become tragically obvious: The poor are struggling now more than ever.

People are going hungry. Poor people, including many who are working at low-paying, insecure jobs, are increasingly relying on food banks. We are deeply troubled by the sense of desperation facing many low-income people. We are equally troubled by the seeming abandonment by both the federal government and the provincial government of our mutual responsibilities to these, our neighbours.

1700

ISARC has consistently advocated for the recognition of six moral principles and we refuse to accept that political decisions are outside morality. These principles derive from the basic tenets of our faiths and we believe they are reflected in the values of the Canadian community at large. We believe that these principles should guide us as individuals and form the basis for public policy and the foundations for implementing programs.

We have outlined these principles before to this particular committee. They are human dignity, mutual responsibility, economic equity, social justice, ecological sustainability and fiscal fairness. There is an appendix that explains those principles somewhat at the back, as there is a listing of the ISARC steering committee members.

Sister Doryne Kirby: Public policy decisions have moral dimensions. We believe that public policy cannot be divorced from the morality embodied in these basic principles. The current provincial government in Ontario has dedicated itself to reducing the provincial deficit. We do not disagree with the view that we need good management of provincial finances, but we vehemently disagree with the singleminded pursuit of this fiscal object that excludes our collective responsibility to those in need.

In September 1995 we were concerned that there was a growing level of desperation facing low-income people. There is an escalating level of panic and anxiety in communities across the province. This fear results from cuts to the income of welfare recipients, particularly an estimated 600,000 women and children who are forced to depend on social assistance. The increasing levels of desperation are affecting communities right across the province. It is unfair and unjust to expect low-income people, particularly women and children, to be forced to bear a greater burden. They have already been paying a heavy price in cutbacks, in the lack of opportunities for decent jobs and in the elimination of programs that would help them re-enter the workforce. Very serious.

We still maintain that fiscal concerns must undoubtedly be addressed. They should not, however, be permitted to displace the principles of justice and the need for building stronger communities. If we concentrate so exclusively on the fiscal deficit and debt, we ignore and will exacerbate the human and moral deficit facing us now and in the future.

ISARC therefore recommends that this committee call upon the government to make the elimination of hunger, homelessness and poverty as well as the furthering of social wellbeing the priority of the budget of Ontario.

Blaming the poor undermines the community. Such injustice occurs when this happens. ISARC is concerned that we are witnessing a frightening trend toward vilifying or blaming the disadvantaged members of our society. The poor are portrayed as people who abuse a generous system and take money out of the pockets of other hardworking Ontarians. The net effect has been to further entrench societal divisions, undermining the very values of social justice and mutual responsibility which have led Canada to develop a social safety net that is the envy of the world.

Governments have been able to capitalize on middle-class fears and uncertainties about reductions in job security, health care and education by painting a picture of the "undeserving poor." This is the picture of people living in poverty as lazy, enjoying a comfortable lifestyle at public expense, and criminals who commit fraud or abuse the system.

ISARC is very concerned with the corrosive impact that fostering these attitudes has on our communities. We believe it is misleading to encourage these public sector attitudes while governments do not assess the impact of their own policies in abandoning the poor. Citizens in Ontario need to be able to evaluate these assertions based upon accurate information and studies that verify the truth of these claims. Therefore, ISARC believes that governments should be able to table estimates of the social costs of policies in the Legislature and be held accountable, just as with fiscal projections, by the wider community.

So it is that ISARC recommends that this committee call for the establishment of a social forecast concurrent with their fiscal forecasts to be tabled in the Legislature and a social audit undertaken regularly to evaluate the performance of public policies.

Ms Mandell: I'd like to speak to the question of standards, both national and provincial. ISARC believes it is very important to point out that Canada has participated in the development of various international agreements to establish minimum standards for a wide range of human rights. These have included basic civil and political rights as well as social, economic and cultural rights. Many of these international obligations are honoured through programs implemented by the provinces.

Ontario must ensure that the Legislature acknowledges that our international obligations under such instruments as the Universal Declaration on Human Rights, the Convention on the Rights of the Child and other international conventions are in fact honoured. It is through fiscal agreements between various levels of government that these collective social obligations are ensured.

Dramatic changes are being made to social programs in Canada and in Ontario, and this is being done in the absence of any firm standards that safeguard the responsibilities of governments to their citizens. ISARC is even more concerned than it was last year, specifically with the plans unveiled by the government of Ontario in January of this year for the restructuring of the provincial-municipal responsibilities. The speed and the scope of the so-called mega-week announcements is very troubling.

The federal government has in effect eliminated national standards for social assistance programs in Canada and the current provincial government has not identified its own standards, nor proposed any for federal-provincial programs to safeguard vulnerable citizens in this province. ISARC is particularly concerned with the effect of further offloading welfare programs to municipalities. Without federal and provincial standards, we're concerned that we will see even more regional disparities within the province. Will we see municipalities, for example, actively encouraging citizens to move to other communities so that those municipalities don't have to pay the benefits to them?

ISARC is very concerned that these current proposals are being developed not only without adequate information and public debate, but also in the absence of any means by which to hold the government responsible. The wellbeing of a large number of people who, through no fault of their own, require our support is going to be put at risk. Therefore ISARC asks again, what are the national standards being proposed to the federal government, and will these standards honour the international agreements which we have agreed to as a country voluntarily?

ISARC therefore recommends that this committee recommend that the provincial government in its negotiations with the federal government ensure that there are national standards, at a minimum those within the Canada assistance plan, and that these standards apply to Canada's social programs and ensure a fair share of the necessary financial resources for the people of Ontario.

In terms of standards, I'd like to comment on specific policies. Those are the recent, over the past year or so, cuts to taxes and to social services. It is our belief that fundamental to the role of any government is the fostering of the safety and the wellbeing of the members of society, particularly of the most vulnerable members of the community. We believe that the moral stature of a society is judged not by how the society rewards its most privileged members but by how it treats its most vulnerable. Today it is precisely the most vulnerable who are suffering the most and bearing the greatest burden of government policies.

ISARC is concerned about the degree to which governments are abandoning the poor and undermining one important means of fulfilling our responsibility to each other. That means is public financial support. There are various ways in which we exercise our responsibility for each other. Taxes are one essential way that governments, through the support of publicly funded programs, can ensure the wellbeing of citizens.

1710

Last year at these hearings, we outlined our concerns that the proposed 30% tax cut would not necessarily stimulate economic growth, nor that the economic growth would necessarily bring greater prosperity for all people. We will not reiterate those arguments today. However, since we have not yet seen the detailed economic studies, we still believe that further tax cuts will have dubious outcomes for many average- and low-income people.

Therefore, ISARC recommends again that this committee call for a moratorium on provincial income tax cuts and that this committee call for adequate benefit rates based on a market-based approach to assessing income needs or, at a minimum, the reinstatement of the 21.6% cut to recipients on social assistance.

One of our great concerns in this area stems from the fact that while taxes are going down, the demand at food banks and at shelters is going up. At the same time as these tax cuts are being implemented, we are witnessing an increased reliance on food banks and shelters for the homeless. In canvassing our communities and social partners across the province, ISARC remains troubled by the increasing expectation that charity is an adequate response to the social problems that we are facing. The demands on our religious communities and social organizations are increasing beyond our capacity.

There are some statistics from the social safety net report on food bank use which make it clear that Ontario is facing a hunger epidemic. They say food bank use has skyrocketed. Some examples are a 102% increase at a Belleville food bank from June 1995 to June 1996; a 150% increase at the Rainy River food bank; and a nearly 400% increase in emergency food calls at a London agency.

Food banks cannot meet the increased demand. More people, including children, now go hungry regularly in Ontario. In fact the Metro Toronto Campaign 2000 1996 report card, which looks at child poverty in the Metro area, shows that from 1995 to 1996 monthly food bank use by children in Metro Toronto has grown by 64%. In the materials there's also a table provided from the Daily Bread Food Bank which shows a tremendous increase from 43,000 to over 70,000 children being fed monthly now through the food bank.

Similarly, there are increased demands for shelter by people who can no longer find affordable housing. The cuts to welfare have exacerbated housing problems.

Families are finding that in order to cover rent costs, they must divert or reallocate greater and greater amounts of the welfare allowances that they receive, which are intended for basic needs. One of our own steering committee members relates that in the shelter where he works, the House of Friendship in Waterloo region, there has been a 20% increase in men using the emergency hostel in 1996. At a time when the need for community support is mounting, many of these agencies which have traditionally helped people are finding that their public support is reduced drastically or completely eliminated.

Governments have suggested that it is charitable agencies and faith communities that more appropriately should fill these needs. Charities and religious communities have been responding, but the very magnitude of these changes and the drastic abandonment of the historic partnership between government and the voluntary sector has been disastrous. How can these agencies absorb significant financial cuts, on the one hand, and then be expected to pick up the slack, on the other hand, for programs which have been defunded or no longer exist?

Even if it were possible for charities, would it even be desirable to depend solely on charity? For ISARC, charity is no substitute for justice. ISARC believes that governments have responsibilities to ensure public wellbeing, and the historic partnership with social organizations and the religious community has contributed to the high quality of life our communities enjoy.

Therefore, ISARC recommends that this committee call for continued support for social and community organizations developing new approaches to addressing these issues.

Brother Maher: Canada has been ranked by the United Nations Human Development Index as a country with the highest quality of life for its citizens. Members of the religious community were not surprised at such a rating, because we have known for some time that this quality of life is the result of a sense of national community in which we have invested for the past 30 years at least.

To continue to exclude low-income people, to erode the foundations of our social programs which have served as a bond for our nation and to continue to cut taxes, thereby further encouraging individualism and consumerism, will have serious consequences for our sense of being a national community. We fail to understand the economic logic that the poor must do with less to make them work, while the rich must have more to make them invest. The moral consequence of this reasoning does not make sense to us and it is contrary to the moral core that lies at the heart of our faith traditions.

We call upon your committee to recognize the intrinsic link between our economic policy choices and our collective social responsibilities. We ask you to include in your recommendations to the government a warning call that we cannot blindly continue down this path that will exacerbate the divisions between haves and have-nots and that will erode our communities. After all, without our community, who are we and what will become of us?

Please be assured that in our various faith traditions, we pray that God will guide and direct you in your decisions. We welcome your questions.

Mr Kwinter: I was quite taken with your presentation. We hear, and we've heard it as recently as today, the Minister of Community and Social Services stand up in the House and state that the welfare load is going down and that's an indication that the economy is growing, that things are better and that this is an indication that this government's programs are working. Yet when I read your presentation and I see figures where 43,000 kids per month were using the food bank in 1995, and this year just past, 1996, 70,380 kids per month were using it, it seems to me we're not getting a true picture of what's happening out there. There's an artificial sort of level that the government has mandated: If you go above that level, I'll help you; if you don't, too bad. They're trying to portray that things are getting better, that less and less people are on welfare and that they're getting jobs and everything is great. This doesn't seem to be what you're finding. Could you elaborate on that for me?

Brother Maher: One of the things you have to keep in mind is that one of the myths associated with welfare and social assistance is that people are continuously on it. That's not true. People move in and out of welfare and social assistance on a regular basis. The second thing you have to keep in mind is that with the front-line organizations, it is almost impossible to spend time and money on researching and keeping accurate tracks of what's happening.

I think a third point needs to be kept in mind in examining the statistics. We have asked governments repeatedly, both this government and previous governments, for the basis on which their projections of the social assistance impacts are going to be made: "What studies have been done? What have you looked at? What can you tell us about how you arrived at this policy or this conclusion?" We've never got any of those. As a matter of fact, some of you may be aware that the faith community leadership has been trying in vain to set some kind of dialogue or exchange with government.

In our experience as front-line agencies and as church personnel responding, you have stretched us to the limits, no doubt about it, and where the statistics come from that say that the numbers are improving or those on welfare are decreasing, we're at a loss to explain that as well. We really don't know and we have not been able, in spite of consistent and persistent efforts with government — Mr Rollins, who's missing, was part of one little meeting we had, but we've tried persistently and consistently to exchange and establish dialogue with the government, particularly because of the approach that says that the charities ought to pick up the overflow, and it's clearly beyond our capacity to do so. Even if we had the will to do it and the people in place and so on, it raises other kinds of questions about the role of government.

1720

Mr Martin: Certainly the question by my colleague is a key question: Where are all the people going who are going off the welfare roles? I know in my community the municipality has asked the social planning council to do some research to try and put some detail around that particular question.

I think it's invaluable that your group continue to do what you're doing and to appear before committees such

as the one that you're appearing before today, because we're not getting the kind of information and the kind of questioning and the kind of challenge from very many other sources at this point in our history that you're presenting.

This morning we had a couple of very good economists who actually were very honest with us and said that the impact of the downsizing of government, the cutting of taxes, the good stuff that all the financiers out there across the world want to see Ontario doing, the impact that has on communities and people is not something they concern themselves with. That's for somebody else to do. The question is, who is that somebody else, and who brings that kind of information forward to this government so that they might consider it and make decisions that reflect an understanding and a sensitivity in that area?

It seems to me that Ontario is a province of tremendous resource, and the greatest resource that we have is our people. Whenever we leave any of them out, we minimize the potential that we have to be even better. I know myself, even in looking after my own health, if there's a part of my body, my foot or my arm, that's aching or sore, I don't operate at maximum potential.

You've made some excellent recommendations in here and I will be doing all I can to make sure they are included in some form of report that comes from this committee.

My question is the same as my colleague's from the Liberal Party: Where are all the people going? I think that needs to be answered, and it's a question that this government should be very concerned about as it moves forward with its agenda, because in the end, if you don't, it will come back to get you. I want to thank you for coming today.

Sister Kirby: Can I just make a remark about the taxes? A very significant person who is a tax expert, a consultant in the Toronto area, one time said, "Taxes are the way that we, as a civilized people, pay for what we have as a civilized country." So it's appropriate to pay taxes. When we talk about downsizing, when the government talks about cutting 30% from people who really can pay taxes, it seems to me there's a very strange attitude that responsible citizens have to the collective good to building up our country. Taxes are a very essential way that we do it, and to cut the taxes of people who can afford to do it seems to me a kind of idiocy.

The other thing that this tax lawyer said was that after people have so much money, what is it that we do with it? There are so many corporations that we're aware of, and you people are aware of them too and the statistics are there to find them — the delayed taxes, the taxes that are deferred, that are not paid. When we want to build a financial way of proceeding based on cutting taxes, to me it doesn't make sense. It seems to me that responsible people need to take a second look at this, a third look and a fourth look, until they realize the importance of taxes to running a government.

Ms Bassett: Thank you for your presentation. It seems awful to have one question to sort of put it all in perspective. I want to make it clear, though, that many of us, certainly our government, feel and put tremendous importance on the problems facing us as a society. We are going about it in a way that's different, I suppose, than you would advocate, but we feel that what we're doing will improve the economy and will help the people most in need.

Sister Kirby: It's not going to.

Ms Bassett: That said, it's a democracy, and different people have different ways of going about things.

Sister Kirby: It hasn't worked other places. What makes you think it's going to work in Ontario?

Ms Bassett: But let me go on —

Sister Kirby: It doesn't work in other places in the world. Look at what it's doing in the United States. Look at the number of people who are poor in the United States. Look at the people who are suffering in Central and South America. It hasn't worked in Africa. It's not going to work here.

Ms Bassett: If I could just —

Sister Kirby: How many examples do we need to have?

The Chair: Excuse me. You're being asked a question. At the end of that question, you can make a response.

Sister Kirby: Thank you. I'm sorry.

Ms Bassett: One of the questions I want to explore since you raised the United States, I'm thinking of an article that Senator Daniel Moynihan wrote in the New York Review of Books. You might have seen it this fall. He, as you know, is a major liberal, a big advocate for all the social programs in the States, and he said perhaps we should begin to re-examine how we are delivering welfare and help to those who are less fortunate, because of the way that, over 30 years, he felt he was still handing out the cheques and people were on this cycle.

Rosie DiManno, a journalist for the Star, wrote that in 1989 there was a 100% increase since 1986 in food bank use. So in a way it's a problem that's been there a long time. I'm not trying to pass the buck to anyone, because it's something we care deeply about.

Everybody here does care and we want to stop it. Do you, who are so closely connected in helping people, think there's a role for government to re-examine how we're going about helping people who are less fortunate to get back on their feet and that perhaps we should change the emphasis, as we're trying to do, so that people have the tools to get back on their feet themselves and regain the self-respect they claim they want so much and they're entitled to?

Brother Maher: I think what Doryne is saying about what has happened in the US bears a very careful look. For example, the United States now spends more money on prisons than it does on education. When we talk in terms of what a country is and what the responsibility of a government is to its citizenry, I think we need to start thinking in terms of the role of government in the care of its citizenry. What it comes down to is, if a citizen needs care, what's the alternative to not offering it?

Ms Bassett: My question to you is, do you just hand out or do you try and —

The Chair: I think our time is well over. I appreciate the conversation. I thank you very much for coming in and presenting your views to us today. It's very valuable, I can assure you.

Sister Kirby: Can I just say one thing? I do believe that the government does care.

Ms Bassett: We do care.

Sister Kirby: Yes, I think you do. What I would be objecting to is the way you go about it, but I do want to say I do believe that you care. I don't want to take that away from the government.

MIDDLESEX FEDERATION OF AGRICULTURE

The Chair: We now welcome the Middlesex Federation of Agriculture. Ms Smith, welcome to the standing committee on finance and economic affairs.

Mrs Loretta Smith: My name is Loretta Smith. I'm a farmer from Middlesex county. My husband and I have cash crop and hog operations. I also wear several hats other than just being a director for the Middlesex federation; I'm a director with the Ontario Federation of Agriculture as well as the Canadian Federation of Agriculture. Basically, agriculture kind of thrives in our home.

Middlesex county, which is the county I'm representing today, is the geographic area that surrounds the city of London. Our Middlesex Federation of Agriculture has 2,400 members. Our members have together, collectively, invested $1.8 billion into the industry and we produce $417 million in sales at the farm gate each year. We're an integral part of Ontario's $40-billion agriculture and agrifood industry. There are several areas of concern that I'd like to address today. I've got a written presentation, but I'm going to basically just highlight some notes from that today.

First of all, cuts to OMAFRA: Since fiscal year 1990-91, there has been a 44% decrease in OMAFRA's budget, which is the Ontario Ministry of Agriculture, Food and Rural Affairs. When the Harris government was running for this period in time, Mike Harris himself has been quoted many times as having said, "There will be no cuts to agriculture." We have come a long way from that statement. There have been cuts to agriculture and there is the possibility of future cuts to agriculture. I understand the government is looking at cutting another $3 billion and there is no guarantee that agriculture is not going to be included in that.

1730

Each and every year Ontario farmers put $6 billion with inputs into the ground. Most of that takes place within an eight-week period. We're a very big part of the economic growth and the economic industries in Ontario. We're second only to the auto industry. That $6 billion we purchase in inputs creates $7.6 billion in outputs, and that's just at the farm gates. That's before it gets to any processors. So we're talking big bucks here. We create jobs, we create wealth and we create economic growth.

From November 1995 to 1996, in Ontario alone there were 16,000 jobs created just in the agricultural sector, and that's not talking about the service industries that can be related to agriculture. These are not restaurant jobs; these are primary agricultural jobs: consultants to producers, machinery sales representatives, machinery repairs — it just goes down the list.

The province of Ontario has an economic goal. We can help you with that economic goal, but we need to be a healthy industry and we need your commitment in order to do that.

Retail sales tax is another area I'd like to talk about. Our recommendation is that you harmonize the retail sales tax with the GST. We'd also like that, in harmonizing it, the same exemptions that apply to farm costs be applied to the retail sales tax. Right now we're paying retail sales tax on inputs that we don't pay GST on. We'd like that harmonized.

Alternatively, because we understand there may be some problems in being able to do this, we would like an at-source exemption. The province has developed the farm business registration numbers which we all get assigned. The Ontario federation actually hands us out cards. We would like to be able to present the card and, instead of paying the retail sales tax at source, we would like that card to be our proof that we are bona fide farmers and there would be the exemption right at source, instead of asking for a rebate in return.

We'd also like a continuation of the retail sales tax rebate which was placed on buildings. That was a one-year initiative that took place. In Middlesex county that's done a tremendous amount of good for us. For example, just five miles away from where I live there's a $1.5-million hog barn that's going up. For every single one of the building inputs that were purchased to put that barn up the retail sales tax will be rebated. That's money that goes back and reinvested into the business.

Wildlife damage is another area I'd like to talk about. Ontario farmers feed wildlife. We're getting a little tired of doing this. There is an ever-increasing population of wild deer. There's an increasing population of Canada geese. There isn't a time when I look out into our cornfield and there isn't a flock of geese out there feeding off what I'm supposed to be producing to make money. In Middlesex county there's a huge population of brush wolves. Coyotes are getting to be larger and larger in number. We even have bobcats. They feed on our animals. It's not just dogs running at large that are costing us money; it's also these wild animals that are costing us.

We would like to see a properly funded compensation program. With the compensation program that is available now I understand that in the 1995-96 fiscal year $793,000 was paid in compensation to farmers for the loss of livestock, and the budgeted item was $350,000. You're going to have to do something to make it so that it's funded properly and budgeted properly. If it's costing us almost $800,000 now, then budget $800,000.

We're very pleased to hear about the new game and fish act that was introduced that will allow us to control some of the ever-increasing deer population. We're pleased about that. The act allows us to hire somebody or to actually do it on our own if we have registered guns, to kill some of the deer population, but we have to prove adequate loss of crop. We are losing tons of crop to these wild deer and the geese. If the Ontario government is going to look at having these Bambis in the fields as a friendly thing, then you're going to have to compensate us for it because we're feeding it.

Skills training: A few years ago, I think it was about two years ago, the Canadian Chamber of Commerce

commissioned a study to determine why businesses were going under. They wanted this group that was doing the study to say that it was government interference and they wanted the conclusion to be that it was bank problems, financial problems. The group that actually did the study found out that there were three basic reasons as to why businesses in Canada were going under: First was bad management; second was bad management and third was bad management.

Ontario farmers don't want to be part of that statistic of bad management. We have an ever-increasing amount of knowledge that keeps coming our way. We have to have a system where we can be trained properly to adapt to the new technology, to the new human resources that we're being faced with. Our farms are getting bigger and bigger. We're hiring people to manage our farm. The human resources have to be there for us. We need to be trained in that. We need to be trained to market our product properly. We're an export industry. We need to learn about the export industry and how we can adapt what we do on our farm, our management skills on our farm, to fit into that global economy. So we would like a further commitment and an enhancement to the OMAFRA budget in terms of training. We want to be able to have management skills provided to us, some kind of mechanism that we can learn about this.

Tax reform: That's a huge issue. It's multifaceted. First of all, I'd like to talk in terms of municipal downloading. I didn't tell you at first, but I'm also a municipal councillor, so I do know what you've done to us and I'm not really happy with some of the things.

In Middlesex county there has been a preliminary budget that's already been drawn up as to what the downloading is going to cost us. We used to collect $32 million for education taxes. We don't collect that any more. As of 1998, we won't be collecting that any more, but once we take off the portion of the education that we used to collect and we add on all the people services that have been downloaded on us, there's a $10-million shortfall and that's going to impact on each and every one of us.

We're very grateful that you've finally taken away the land tax rebate program, but you've downloaded some people services on to us that weren't really expected. The Crombie commission actually advised not to take away the land tax rebate program because there was no mechanism to deal with all these people services. With land tax reform, what mechanism has been put into place?

For example, right now I rent farm land from other people who do not farm. They're not classified as farmers. They get the land tax rebate back on that land because I signed as a registered farmer that we're renting the land and we produce over $7,000 worth of product. How are you going to do those mechanisms for people who own land but we rent the land from them? Also, how is the farm residence going to be taxed? The land that sits underneath that house is not a residential lot; it's farm property. Some of those things have to be sorted out in order to make the smooth transition for us.

There are other things in the brief like child care that I haven't talked about, but it's outlined for you. There are a couple of other things that just right now aren't coming to mind.

Just to conclude and then hopefully some of these things will come out in the questions, we need a commitment from the Ontario government that you are committed to Ontario agriculture. If you're committed to Ontario agriculture, we can help you with a lot of the export initiatives that you've taken and the economic growth that you believe this province can do. Thank you.

The Chair: Thank you very much, Mrs Smith. I think it's six minutes that we would have for questions. Mr Martin, would you commence, please?

Mr Martin: Sure. That's six minutes all told?

The Chair: No, six minutes each.

Mr Martin: You present a very well prepared and detailed brief and point very clearly in my mind, and maybe you can correct me if I'm wrong, to an argument for government involvement in the life of farmers in Ontario. It's my contention, and you've been sitting here for quite a while listening to some of the presentations, that underlying any business venture, and farming is business, in Ontario is the need for a good infrastructure. That's, as you mention, your health care.

I find it interesting that you mention day care, child care, something we don't always relate to farming people. We get a sense somehow that that just happens and it's not a problem. We often think of child care as an urban problem more than a rural problem or an urban challenge more than a rural challenge.

1740

You talk about the need for funding for skills training in agriculture. You were here when the students presented and they made their arguments for more funding so that they can go to school and learn how and hopefully some of them will come back home and run some farms. If we take away from that, we diminish our ability as a community of people to support the various industrial initiatives that are out there.

You've listed a whole grouping of things that you think are important. You also mention in that, which complicates it even further, the downloading that's now going to happen to municipalities, whether they're rural or urban, and the cost of skills there. Which, in your mind, would be the most important if we were to focus on one in particular to your community out of all of the things that you've presented here?

Mrs Smith: It's difficult to pinpoint one. Can I do this as two parts because I can't actually come up with one? Number one is our future, and our future is our children. Most people like you think that child care is an urban issue. We take our kids to the barn, we take our kids out on a tractor, and there is no other industry anywhere that brings their children into a place where it's not safe. Someone working in the automotive industry does not take their child to Oakville's line with them, but we do because there isn't anything for us.

People think that we can just pass it off to our mothers or our mothers-in-law. My mother-in-law is dead and my mother isn't interested in that, thank you very much. She raised hers and it's my turn to raise mine, but there isn't anybody else. I'm not interested in taking my child to a

day care. I'm well past that. I mean my youngest is 17 years old, so I'm past that, but I've gone through all this.

The idea of taking my child to a day care for the whole day, that's not what I need because I go to the barn at 7 o'clock in the morning and I go to the barn at about 4 o'clock in the afternoon for about an hour, but when it's time to go in the fields, I'm in the fields from 7 o'clock in the morning till sometimes 2 and 3 o'clock the next morning. Who's going to provide the day care for me there? And we're putting our children at risk. That's one very important issue.

The other issue is, there are so many things in technology that are coming at us right now. I mean, global positioning where we can determine what kind of pesticides and herbicides or what kind of yields we're getting to an actual pinpoint on our farm, those are things I have to learn about. It isn't just this infusion of knowledge that I absorb. I have to learn about this and I have to be able to go someplace where I'm trained properly on it. Marketing is something that just keeps going for ever and ever and ever and ever. I mean the global weather patterns, just what happens — how much grain the United States is producing right now, how many soybeans are being produced in Brazil. I have to know all that — I have to keep abreast of all that.

Basically we're dealing with the big boys. These are the big boys, the people down at the Chicago Board of Trade. We're supposed to know almost as much as they do. Well, they went to school to learn that information. I need to go to school to learn that information. We need to go to school — we, collectively, the farmers — for skills training and management training. We know how to feed pigs and we know how to grow corn, but it's the ever-increasing technology that comes with it and looking after our next generation. Those are the two basic things. We need your help with that.

Mr Martin: What you're saying here today is that government cannot disengage, that government in fact has to be more involved in that.

Mrs Smith: We're big business and it's to your benefit to get involved in agriculture. We are an economic growth industry. The world isn't getting smaller, and they're not eating less. The world is increasing. The population is increasing and technology hasn't kept up with the increasing population. You have to get involved with us.

Mr Martin: You're obviously a private sector group in that you've invested probably your life savings in this. What happens to you if government continues to disengage? I believe the thinking — and I'm waiting to see how it all unfolds — is that the private sector will come in and take over and pick up and do a lot of the things that you have indicated here that you need and will do it more cost-effectively and more efficiently than government ever will.

Mrs Smith: But they'll do it at what detriment? If I look at South Carolina, for example, they have a huge hog farm in South Carolina called Murphy Farm, and Murphy likes to say it's Murphy Family Farm, but it's a corporate farm. They have 200,000 sows. What they've done is they've got it to the point where people who live in South Carolina don't want to live there any more either, because they've damaged the environment. They've polluted the air. Maybe they can produce cheaper, but at what cost, and is it the product you want?

The family farm has always been able to provide you with high-quality products at the most efficient cost in Ontario, and we do minimal damage, if any damage at all, to the environment. It's in our best interests; we've invested in this land. We continue to invest in the land by looking after the future of it environmentally. For the government not to maintain an involvement with us — huge corporate farms are going to produce food at a higher cost. You're going to see it in the grocery store.

We heard people here talking about the poor. If they can't afford it now, are they going to be able to afford it when big business takes it over? Big business isn't going to do it for 1% profit or half a per cent profit; they're going to want a lot more than that.

Mr Wettlaufer: Thank you, Mrs Smith, for coming here. I'm a city boy, but I married a farm girl, and I spent many, many hours in the hay loft on 90-degree days.

Mr Kwinter: This is not a place for confession.

Mr Wettlaufer: We're talking about putting hay up into the mow. There were many warm days when I had perspiration dripping down my face, down my back. It was tough work, as I understand.

I'm really drawn to this wildlife damage. My uncle has an orchard in the Beaver Valley. When he started growing his apples, he had problems with rabbits, and then as the trees grew larger, he had problems with porcupines, and as the trees grew larger, he had problems with wild deer. I don't think I need to tell you what he does.

Mrs Smith: It's the three Ss?

Mr Wettlaufer: You got it.

The crop insurance plan, you say compensation for spot loss is extremely difficult to collect. Why is that?

Mrs Smith: It's just a mechanism that has been placed into the compensation act. You can't prove it was deer, and you can't prove it was just poor soil conditions or lack of chemicals. Deer may go in, and raccoons as well, they go in and just take a small portion, so how are you going to say out of a 100-acre farm that they've taken a 10-square-foot piece? It may not just be one 10-foot-square piece; it may be 30 in, let's say, a two-acre piece. It's very difficult to prove.

When you do crop insurance, it's on the overall basis of all the land you've grown. I guess the best example to use here is, we grow coloured beans, which are edible beans. We grow them on three different farms; one is seven miles away from our home farm, and the other one is 10 miles away from our home farm. When crop loss is determined, they do the average of all three farms. So if I have a crop loss on one farm and the other two farms are producing well above my normal yields, I'm not collecting a thing. But I may have had substantial crop loss on one farm that has a bush on it, where the deer like to hide or the raccoons are in, because they like to go up into the trees.

Let me backtrack here. There's no mechanism to be able to collect on that, because it's the overall yield. I've got three farms; one has a bush, two don't. On the two that don't have a bush, there's very minimal deer damage

done, very minimal raccoon damage done. But the one that does have a bush, they come out and they can go very far into the field. That's why it's difficult to collect: the mechanism just isn't there.

1750

Mr Wettlaufer: So this is not a true insurance plan, then.

Mrs Smith: Not really.

Mr Wettlaufer: Do you pay premiums into it?

Mrs Smith: Yes, we do.

Mr Wettlaufer: How much?

Mrs Smith: We pay 50%. The provincial and federal governments pick up the other 50%.

Mr Wettlaufer: What would the rate be that you would pay for something like that?

Mrs Smith: It depends on what crop you're doing. Coloured beans are a lot higher than they are for corn or grain. Coloured beans are at $38 an acre, so that's $76 an acre, actually, when you consider the federal and provincial costs that are going into it. We're paying money out to this. We grew 150 acres last year of coloured beans, and we paid over $4,000 in crop insurance. Nobody compensated us or any other farmer for the loss of crops by wildlife damage.

Mr Wettlaufer: The livestock plan is not insurance either.

Mrs Smith: For the livestock, you have to have a field representative come out, and it's administered municipally, where they would go out and they'd say that it was a coyote kill or a wolf kill or something like that, and then you are compensated. But if that animal is bred, you're not getting compensated for the loss of income. For example, if you have a cow that's out there — I mean, pigs are housed indoors — and that cow is a dairy cow, let's say, and that cow was supposed to drop her calf and the calf turns out to be a heifer, and a heifer produces milk down the road, you've lost the income from that heifer; you haven't just lost the one cow that was carrying the animal, you've lost all the income that goes along from it. We get paid market value for the animal, and that's it. There's no further downloading of costs. It's just the one animal you get paid for.

Mr Wettlaufer: Unlike business insurance, you cannot collect for future loss of income. Do you pay a premium for that?

Mrs Smith: I believe it's all administered municipally. I'm sure that somewhere in our municipal taxes it's all there.

Mr Kwinter: Thank you for your presentation. I have to admit there are no farms in Wilson Heights, but notwithstanding that —

Mrs Smith: But you eat.

Mr Kwinter: — I have a very strong and continuing involvement in the agricultural industry. One of my concerns is that, and I've noticed it not necessarily with just this government but virtually every government, there isn't a realization — and I am almost prepared to bet that if I were to raise the question in the House, of our 130 members, very few of them would know that Ontario was the largest agricultural province in Canada. It's an issue where people just don't think of Ontario as an agricultural province. You see it in the government.

I was frantically looking through the Ministry of Finance's documents that they provided us with, Ontario Economic Accounts. They show the various sectors of the economy: community, business and personal services; manufacturing; miscellaneous; primary; utilities; construction; government; transportation, storage and communications; trade; finance, insurance and real estate. No indication of agriculture. It's just lumped in somewhere in there. It may overlap a couple of different sectors, but there isn't an agricultural sector.

I noticed that in the projections for capital investment by the government, it had budgeted in 1995 $5 million; this year, zero — written it off. If you take a look at what has happened in the agricultural sector, you'll notice that there's a steady decrease in government support for it, yet as you rightly point out, it is a huge growth industry and will continue to be because people have to eat. That's just in the way of background.

What I would like to get from you, and maybe we can get some — oh, we no longer have a reaction from that side. Sorry.

We had a presentation this afternoon by the Alliance of Manufacturers and Exporters Canada. You say in your brief that the agricultural sector is the second largest next to the automotive. The automotive is included in the manufacturing section, so they're all-encompassing. I don't have the figure because I can't get it from the government documents, but I would assume that manufacturing, including automotive and agriculture, is a sizeable chunk of the total economy.

We have representatives — and I assume you speak not just for Middlesex but for the agricultural sector — saying that the GST and the PST should be harmonized; that it will be an advantage. So you ask the question, if the major drivers of our economy are asking for it, why isn't it happening?

Mrs Smith: Well, that's what you're all here for. You're the engine that's supposed to make this happen. We're asking you to harmonize them. From the agricultural point of view itself, harmonizing the GST and the PST, our retail sales tax, would put $40 million back in the pockets of Ontario farmers. Farmers don't just take the money and run; we reinvest and we reinvest and we reinvest. It's our business, it's our livelihood, it's our way of life. Most farmers are in it not for this generation but for the next generation and the generation after. We're building and we're spending money. Every time we spend a dime, you prosper, Ontario prospers; and we spend lots of dimes.

Mr Kwinter: I'd like to also refer to your observations, your concerns about when they download and what it's going to do to farm residential property that is going to possibly attract a residential assessment, notwithstanding that it's categorized as agricultural land. It would seem to me there's a real inequity there. I know from my experience that it is very difficult to sever that property. If you could at least sever it and be able to do something with it where you would get the actual value for it, the market value or whatever you want to call whatever happens to be the flavour of the month of how the assessment is going to take place, then there would be

some equity. But it would seem to me there's an inequity because you're stuck. They're going to apportion some of these downloading costs to you and you have no way of recouping that. In the odd case they'll let you do it, but very, very rarely. I'm sure you know that.

Mrs Smith: It's often been said even in the real estate industry that the cheapest way to buy a house is to buy a farm. If that's true, then why should we be paying the same assessment rate on our house and one acre that the rest of the land is going to be paying? We have some concerns about that. The land that sits underneath our house or that surrounds our house is not a residential lot. We can't sever it. Municipal bylaws and county bylaws have prohibited severances of farm lots. If we can't sever it — and it's considered to be part of the farm. We're not asking for the same 25% rate that the rest of the land has. We're concerned about the possibility of having to pay full residential assessment rates on that one acre that sits underneath the house or surrounds the house.

The Chair: Thank you very much, Mrs Smith, for coming in and presenting to us today. We appreciate the agricultural input and the farm view.

There being no further business, this committee stands adjourned until 9 o'clock tomorrow morning. I would ask you to be prompt.

The committee adjourned at 1800.

CONTENTS

Wednesday 12 February 1997

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Chair / Président: Mr Ted	Chudleigh (Halton North / -Nord PC)
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*Mr E.J. Douglas	Rollins (Quinte PC)
Mr Joseph	Spina (Brampton North / -Nord PC)
*Mr Wayne	Wettlaufer (Kitchener PC)

**In attendance / présents*

Substitutions present /	**Membres remplaçants présents:**
Mr Ron	Johnson (Brantford PC) for Mr Spina (morning)
Mr Peter L.	Preston (Brant-Haldimand PC) for Mr Spina (afternoon)

Clerk / Greffier: Mr Franco Carrozza

Staff / Personnel: Ms Alison Drummond, research officer, Legislative Research Service

F-27

F-27

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Comité permanent des finances et des affaires économiques

Pre-budget consultations

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 13 February 1997

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Jeudi 13 février 1997

The committee met at 0902 in committee room 1.

PRE-BUDGET CONSULTATIONS

The Chair (Mr Ted Chudleigh): I call the meeting to order. I would like to welcome back the Deputy Minister of Finance. Again, thank you for your cooperation with the committee in this continuing saga; it's like a mini-series, actually. We'll turn the meeting over to you and proceed with your presentation.

I would ask the committee and those present, given the acoustics in this room, for your cooperation in your silence in listening to the presentations today. Thank you very much.

Mr Michael Gourley: Thank you. I have with me today Ms Anne Evans, who is the assistant deputy minister of finance responsible for the finance and financing policy division and is also the controller. Mr Tony Salerno is the assistant deputy minister and also the CEO of the Ontario Financing Authority and the vice-chair of the board of the financing authority.

Ms Evans will start her presentation on the third-quarter Ontario finances, simply recalling for the committee's benefit that this represents a report on the financial results of the government's operations up to the end of December. It covers the results to the end of the first nine months, but it focuses on the actual results achieved in the third quarter itself.

Ms Anne Evans: The first slide — hard copies are being handed around to everybody — provides just the overview of what has been reported in the third-quarter finances. The 1996-97 deficit, at $7.7 billion, is down $508 million from the budget plan and $501 million lower than the second-quarter results that were reported in the fall.

The revenue outlook is $47.8 billion, which is about $1.2 billion above the 1996 budget plan. Revenues have increased primarily due to higher than expected personal income tax revenue and the strength of the Ontario economy. Total expense, at $54.9 billion, is up $662 million above the budget plan, mainly due to increased allocation to the restructuring fund. The restructuring fund, which is incorporated in both the programs expense line and the capital expense line, has increased by $900 million to $1.8 billion. The reserve of $650 million, established in the 1996 budget as a provision against unexpected economic circumstances that could have an impact on the fiscal position, is still there. If it is not required it will be applied directly towards deficit reduction.

The next slide gives a summary of the revenue changes that have been reported. To start with, as we've already mentioned yesterday and in the previous week, personal income tax revenues are $970 million higher than projected, based on data received from Revenue Canada on the 1995 assessments. In part this means that the underlying base upon which our forecasts are prepared has increased.

The retail sales tax is also up $160 million, which reflects Ontario's stronger economic performance and strength of year-to-date receipts. Corporations tax is up by $300 million against budget, and this reflects again Ontario's economic performance improvement and strength of year-to-date receipts. Land transfer tax is up is by $50 million this quarter, reflecting strength in the Ontario housing market in 1996. Finally, the Canada health and social transfer has an impact of $349 million downwards. This is tied to the upward revision of the personal income tax as well as federal data revisions related to corporate taxable income. In total, the revenue change since the budget is $1.2 billion over budget.

The next slide gives a summary of the operating expense changes. The first line refers to the major change, which is the increase to the restructuring fund of $900 million, for a total of $1.8 billion this year, less $517 million provided in transfers to capital restructuring projects. I'll talk about those in a few minutes on the next slide.

Second, public debt interest: We're showing a total improvement since budget of $195 million in public debt interest. This is due to lower interest rates as well as careful management practices.

The next line is municipal transit transfer payments. This is a $53-million accrual adjustment due to a revised estimate of outstanding liabilities as of March 31, 1996. This is an adjustment that comes out of changes that were included in the 1995 public accounts. The adjustment has an equal and offsetting impact on 1996-97 finances, and that's what that line means.

The next line is legal aid expenses. An $11-million increase reflects additional information from audit of the program that was also reported in the 1995-96 public accounts.

Moving to the next slide, it's a summary of capital expense changes. Most of these changes in capital are a result of investments out of the restructuring fund. In particular the first three items on this chart are associated with this. First, the municipal restructuring fund: The $250 million is the 1996-97 portion of the $800-million municipal capital and operating fund announced last month as part of the Who Does What exercise. The second item, provision for extended Canada-Ontario infrastructure works program, includes both the federal and provincial share of what the government hopes to spend this year on an extended agreement in this area.

The third item is the highways transfers as well as Highway 416 construction. These initiatives were announced in the 1996 budget and are fully offset by the restructuring fund. It includes $60 million to provide municipalities with additional funding to upgrade highways being transferred to them and $7 million for the accelerated construction of Highway 416.

Finally is the COIW accrual adjustments. This is the Canada-Ontario infrastructure works program that has been in place for a couple of years. This is an adjustment that relates to the 1995 public accounts, in which we reported a faster than expected pace of construction projects under that program. There is an offsetting impact in 1996-97 as we adjust the accrual amount for the end of last year.

0910

The other category is a number of other adjustments associated with some of the accrual adjustments we did in public accounts as we moved through the process of implementing in greater detail the impact of moving to accrual accounting.

The next chart summarizes the restructuring fund. As I think I've already said, this was initially put in place in the 1996 budget as a $900-million fund designed to support restructuring needs that would be identified through the year as the government moves through its restructuring program. This fund has increased by $900 million, as part of the third-quarter finances, to $1.8 billion. The allocations are $700 million associated with the municipal social assistance reserve, which is part of the Who Does What exercise, and an estimated teachers' pension plan arbitration award of $100 million, associated with outcomes of dealing with the experience gains in the teachers' pension plan. In addition, in the capital area — I've already touched upon these — there is the $250 million associated with the $800-million four-year municipal capital and operating restructuring fund, the proposed extension to the Canada infrastructure works program, as well as the highway transfers in 416. As you see, there's still an amount to be allocated of $483 million out of this fund.

The next slide simply revisits the balanced budget plan for Ontario and highlights that the government still is on track to achieve its deficit targets and balance the budget by the year 2000-01. For 1996-97, as I've already said, the original budget plan of $8.2 billion is now estimated to be $7.7 billion, as reported in the third-quarter finances.

The final chart revisits the point that since 1984-85 spending has grown faster than the pace of growth in population and inflation. However, the current government's focus on business planning is making significant impact in terms of returning spending to more manageable and affordable levels, consistent with the spending that was occurring in 1984-85.

Mr Gourley: Mr Salerno will continue with the presentation. I believe it will provide the answer to at least two questions that were asked yesterday in respect of debt and Ontario's financing plan. Once that short presentation is complete, we'd be happy to answer any questions.

Mr Tony Salerno: To arrive at our total financing requirements for the year we start with the PSAAB deficit, which, as Anne indicated, is $7.7 billion. That's down $508 billion from the budget. We then make adjustments to reflect the difference between the cash and PSAAB deficit. Right now, because the two numbers coincide, there is no adjustment required. That is down, actually, from the budget by $100 million.

We then include the refinancing of debt maturing during the year, which this year totals $6.1 billion. On top of that, the OFA is borrowing on behalf of agencies of the government, and the net borrowing this year is $500 million. The biggest chunk of this is for the Ontario Transportation Capital Corp that's building the 407 on the boundaries of Metro. That gives us a total financing requirement for the year of $14.3 billion. That's down $655 million from the budget.

In terms of how we plan to meet those requirements, we are planning to reduce the level of liquid reserves this year by $6.4 billion. That's a $1.7-billion increase from what we had planned in the budget. Other non-public-source funding amounts to $100 million. So we are left with total borrowing requirements — that is, what we actually go to the public markets for — of $7.8 billion. That's a decrease of $2.2 billion from the budget.

As of December 31, we had borrowed $6 billion, which as of December 31 would leave a balance of $1.8 billion. I should add that since December 31 we've continued with our borrowing program and have borrowed an additional $450 million, roughly, so that leaves roughly $1.4 billion to be done between now and the end of March. However, I would caution that this number includes the $650 million that's in there as a reserve, which, as the minister indicated last week, is unlikely to be used. Therefore, if that happens, if that amount is not used, the borrowing to be done between now and the end of March drops by another $650 million, so we're at roughly between $700 million and $800 million between now and the end of the year.

The next slide gives you an indication of where the $7.8 billion is being borrowed. We started the borrowing program this year with a very successful Ontario savings bond campaign. We raised just over $1 billion through that campaign. While this is down somewhat from the year before, compared to other jurisdictions that ran a savings bond campaign this year our campaign was very successful. In fact, we were faced with a very tough market this year. You could say the retail investor was faced with sticker shock when we were offering under 5% in the savings bond campaign.

We had two products we offered. One was what we call a step-up, where the interest rate is predetermined over the five years and goes up. It started at 4.5% for the first year and at maturity, in the fifth year, it grows to 9%, which yielded an average, if held for the full five years, of about 6.5%. The other option was a traditional savings bond, where the interest rate varied every six months. That one had an initial rate of 4.75%

From the domestic market, we had an additional $1.6 billion through three public offerings. We also borrowed, in the treasury bill market, $700 million. This is short-term, variable-rate financing. We issued our first French

franc issue for $800 million. Again, this is an extremely successful offering, from our perspective. We were able to get extremely attractive and cost-effective funding through this first French franc issue of ours.

We also issued our first two Samurai offerings in the Japanese market. A Samurai offering is a bond issued directly to the Japanese market; it really has to do with the documentation of the bond issue. As well, we had a number of very cost-effective, medium-term note programs, most of which were targeted to the Japanese market; again, extremely cost-effective, and that's one of the driving forces of our program.

That is the $6 billion that we had borrowed as of December 31. That left the balance of $1.8 billion, which, netting out the $450 million approximately that has been done since December 31, leaves a balance of $1.4 billion to be done. The issues since December 31 were also medium-term note programs, three in the Canadian market and one European medium-term note for $95 million, again targeted to the Japanese market.

That concludes my specific presentation.

0920

The Chair: Thank you very much. We'll move into questions now. For the information of the members, we will have photocopies made of that last set of slides immediately; they should be available to us in five or six minutes. Should we start with a seven-minute round of questions, starting with the opposition, and then we will finish up the time with a second round? Mr Kwinter, would you start us off, please.

Mr Monte Kwinter (Wilson Heights): I'd like briefly to address the borrowings and what is happening in the marketplace. Unfortunately, I don't have the hard copy of your presentation at the moment, but I'd be interested to know — your borrowing requirements really aren't a reflection on the fiscal period other than marginally. Most of it is because of short-term debt or debt coming due that has to be refinanced.

Mr Salerno: Well, $6.1 billion is refinancing of the $14.3 billion that I indicated is the total financing requirement for the year.

Mr Kwinter: Are you finding, now that Ontario has a solid AA rating, that it's more difficult to place this, not because of Ontario but because it doesn't command the same premium that some other bonds in the market would?

Mr Salerno: Quite the opposite, frankly. Looking at the spread — that is, the premium we pay over the Canadian government issues — one could argue that the market is treating Ontario as a credit much higher than we currently are, because that spread has narrowed quite significantly. That's for a number of reasons, one of which of course has to be the fact that the fiscal situation is showing a dramatic improvement. Essentially, the market is discounting the projection of better financial times.

Mr Gourley: Tony, I wonder if you could mention the premium we are paying in terms of basis points, the average. We want to be precise.

Mr Kwinter: I think it's 20 basis points over Canadian.

Mr Salerno: Currently, the spread right now in 10-year bonds is between 17 and 20 basis points over Canada; in the long bonds, the 30-year bonds, we're at about 30 basis points over Canada.

In fact, it's not just an Ontario story. The whole Canadian market is viewed very, very positively. Somebody may have shown a slide earlier showing where Canada has gone over the last three years. We've gone, as a country, from a situation where deficits as a percentage of GDP were 6% in 1994 to currently just over 1%. That obviously is viewed very positively by the financial markets and has led to the situation where the Canadian dollar actually has pressure on it to go up, yet the interest rates at the short end are about 300 basis points through the US; in other words, three full percentage points lower than the US, which generally in the past has been as high as 5% percentage points higher than the US. As of today, Canada is five basis points through the US in 10-year bonds, a situation that is quite rare.

When you talk the Canada story and then the Ontario story, we are enjoying extremely favourable interest rates. This is happening at a time where there's no pressure on the dollar to go down. If anything, all experts view the dollar, as Steve indicated yesterday, having upward potential.

Mr Kwinter: What is the explanation for Alberta having a 10-basis-point spread, which is like half of what Ontario has?

Mr Salerno: They are rated higher than Ontario, as you know, and one of the things they currently have is a surplus, which we don't have yet.

Mr Kwinter: What happens in the next couple of years when some of your long-term debt comes up? Do you anticipate any problems with that? What do you think the spread's going to be between what you're paying now and what could happen in that market?

Mr Salerno: It's difficult to forecast because, as I said, interest rates vary due to a number of factors. A number of factors impact on the reasons interest rates are a particular level. But there's no indication that the interest rates are going to increase. In fact, considering that the dollar is forecast to increase, considering that the deficit situation in Canada and in Ontario and Quebec particularly, the last two holdouts, is forecast to improve, all those forces would suggest that interest rates could go down or at least stabilize where they are now.

Mr Kwinter: What is the amount, what is the rate and when is it coming due on some of this long-term debt?

Mr Salerno: Over the next four years, we're looking at about $5 billion to $6 billion refinancing on average. We view it as very positive, because as we're refinancing that, we're refinancing debt with double-digit coupons attached to it. Currently, we're financing 10-year debt today at about 6.6% and long-term debt at about 7.2% to 7.3% over 30 years — by long-term I mean 30 years — versus debt that is coming off probably averaging around 11%. It's a big saving to us as we refinance that existing debt. It's an opportunity to reduce the total interest cost, at least on that maturing debt.

Mr Kwinter: If I could go back to the fiscal summary, I didn't quite understand when you were going through it. When you were talking about the second one, for

example, increase in restructuring fund, second quarter $900 million, budget $900 million, I got the impression you were saying there is a $900-million difference.

Ms Evans: I was saying that the original budget in May had a provision for $900 million for restructuring efforts and the third-quarter finances added another $900 million to that, for a total of $1.8 billion. What the chart shows when it says "second quarter" and "budget" is simply change since budget and change since second quarter. In the case of the restructuring fund, the change of $900 million happened in third quarter, so it's a change since second quarter and since the budget.

Mr Kwinter: Doesn't it seem somewhat amazing and coincidental that virtually every one of those figures has increased by exactly the same amount?

Ms Evans: I think what that really says is that in second-quarter finances there were not many changes. There were few changes compared to third quarter. We're just identifying which changes occurred since second quarter and which have occurred since budget; it's just showing the difference between third-quarter and second-quarter finances.

0930

Mr Gourley: We had been here in November and had talked about second-quarter finances results, so if we said, "Let's talk about the difference from the budget," we would be explaining changes we'd already explained to the committee. We tried to narrow it down to just those changes which took place in the third quarter, and that's what the presentation is designed to do. It turns out that almost all the major activity took place in the third quarter.

Mr Tony Martin (Sault Ste Marie): I want to thank you for coming this morning and presenting the numbers to us. It seems to me, from what you presented yesterday and what you presented today and from listening to the economists we had before us yesterday, that Ontario is in pretty good shape.

Mr Gourley: I think that's a fair statement. Our prospects are very good. I must say that the fact that Ontario still has a $7.7-billion deficit means we have a major distance to go before we can begin to use Alberta language about surpluses and so on. So $7.7 billion is still a huge deficit to deal with; it's obviously a great improvement over what was there, but it's still a major challenge. With the prospects we face, the ability of the government to reduce that deficit I think is firmed up or confirmed. In that sense, we are in great shape to meet the balanced budget plan.

We still need to see a number of improvements, I'll say on the job creation front; also, on the need to see the consumers' behaviour responding, reflecting their confidence. It's reflected in the purchase of new automobiles and new homes, either resales or new houses, but it would be good to see that confidence reflected in their actual purchasing activity and consumption generally. You saw yesterday that was growing at 0.5% in the third quarter, compared to machinery and investment, and non-residential construction, which were growing by 38% and 12%, respectively, reflecting business confidence. Business owners and business people are reflecting confidence in Ontario's economy and I think we need to see it more on the consumer side, beyond the automobile and housing areas that we've seen it in.

Mr Martin: Certainly anybody who's been watching the economy over the last probably four or five years will tell you it has been improving consistently since the recession of the early 1990s. That's good for Ontario. I think it means we're all working really hard and taking advantage of the opportunities that present themselves and we're heading in the right direction.

The numbers you presented yesterday and this morning: How much of that is a factor of anything this government has done so far in its mandate, compared to just the general improvement in the economy? We had yesterday the Alliance of Manufacturers and Exporters Canada before us, and they said that in their experience the last five years in Ontario have seen a record investment in this jurisdiction, in Ontario, by both domestic and external business interests.

I would like to know how much of the good news we have here today is because of that activity and the improvement you've identified in the economy, and how much of it would be based on tax cuts and cuts in expenditure.

Mr Gourley: I have to rely in part on the fact that our minister has answered that question, a variation on it, several times in the following way. He starts by saying one might be tempted to say that all the improvement is a result of everything the government has done, and he would cite the 10 tax cuts in the budget and the change in investment climate generally. The fact that there's a firm plan out there to balance the budget restores confidence. It allows the international investment community to look at our bonds in a more favourable light. It allows the people who want to invest in Ontario to see an environment in which they feel a certain amount of predictability is where the government's going to go, that it's not going to be saying: "Oops, I made a mistake on estimating expenditures. They're going to be a lot higher; therefore, we'll have to cut spending in the middle of the year," or "I underestimated spending in an important program." Bringing that discipline to the fiscal plan has been an important message to Ontario.

The minister then goes on to say, "But Ontario's efforts are not alone." Mr Salerno just talked about the federal government's and the Quebec government's efforts and the fact that 11 governments are, without agreement — that is to say, without a formal federal-provincial agreement — working in concert in respect of their fiscal policies. They are essentially all looking to balance budgets or maintain surpluses, and that's an important signal for our economy. I'll say the signals coming from Ottawa, coming from Alberta, British Columbia and the maritime provinces are all good for confidence in Ontario.

I think it's fair to say that while many of the government's activities are important signals and have a very important influence on improvements, although we have had a large number of investments in Ontario, we haven't had the type of investments that would be typically leading a recovery in Ontario as we have had in the past.

We are beginning to see that. We saw in the non-residential construction investment statistic for the third

quarter a 12% increase, and this means that industries and businesses are investing, are expanding plant. In fact, I met just earlier this morning with a vice-president of one of our banks, and he's indicating that they're seeing that in terms of activities in the current quarter, with the prospects for 1997 being very good for continued increase in that area of investment. I think with that investment, we're going to see the jobs being created that people are looking for.

Mr Wayne Wettlaufer (Kitchener): Mr Salerno, in the slide you put up on 1996-97 financing requirements: the 1995-96 deficit was $8.7 billion; total borrowing requirements were $12 billion; an increase-decrease in liquid reserves of $3.3 billion. I see a direct relationship there between the borrowing requirements and the deficit. The 1996-97 deficit was $7.7 billion, with total borrowing requirements $7.8 billion, again a direct relationship between what we have to borrow and what our deficit is. And we may not have to use the reserve of $650 million this year, so that would reduce the borrowing requirements. Is this likely to continue? Is there a direct relationship between the borrowing requirements and the deficit for the next few years?

0940

Mr Salerno: Yes, there is, obviously, to the extent that the deficit reduces the need to go out there and borrow the money to fund that shortfall between revenues and expenditure. One of the things you noted from the slide is that the deficit went down, yes indeed it went down, but the total borrowing requirement went down by a greater extent. Part of the reason was that whereas last year we increased the level of the liquid reserves towards the end of the year, this year it's a planned increase in the level of liquid reserves.

One of the things we did last year, which is part of managing the borrowing of the province to yield the most cost-effective total cost of borrowing — in the last quarter of last year interest rates were particularly low, at historic low levels — we increased the level of liquid reserve; we pre-borrowed, in effect, to fund some of this year's requirements.

We ended the year last year with record high levels of liquid reserves. It was over $11 billion. This year the plan is by the end of the year to reduce that to $5 billion, in part because we see interest rates having stabilized now. You'll remember that last year, the first quarter of the calendar year was followed by almost an interest rate spike, not extremely dramatic but interest rates did go up quite significantly in the second quarter. Over the year, they've now dropped off a bit again. We see interest rates stabilized at this level.

Another thing that's happened is that the cost of holding liquid reserves has gone up. Last year, what we refer to as the steepness of the curve — the difference between short-term money and long-term money — was fairly flat. What's happened over the year is that interest rates at the low end have gone down very dramatically without as dramatic a decrease in the long end. Clearly, it's not cost-effective to pre-borrow to hold that level of liquid reserves.

Other things we've done to manage that and to reduce the cost of even the liquid reserves we are carrying is that we've increased, quite significantly over the year, the amount of floating rate debt we carry. Fully half of the net borrowing we've added this year has been in floating notes to take advantage of the lower rates and the steepness of the curve, essentially.

Ms Isabel Bassett (St Andrew-St Patrick): We're not on that topic exactly, but I wonder if you could give us the cost of the federal government harmonizing the GST and the PST in the Maritimes and if that's impacting on us.

Mr Gourley: I don't have those numbers handy; we may have them. I know a number of issues have been raised as a result of the harmonization, the types of issues that anyone who would be looking at that topic would have to deal with — a few I'll recall now.

Taxation of books was a major issue in the provinces, as well as the issue of the impact on items that previously weren't subject to taxation. The impact on home heating fuel and home electricity was rather significant, as was the impact on new houses, where there was a very substantial impact. It depends on the type of housing being constructed, but it was several thousand dollars being added to the price of new homes, and that was a result directly of the introduction of the harmonized program.

In terms of the actual compensation provided to the maritime provinces, it was designed by the federal government to cushion the impact because the various rates in place for the retail sales tax in each of the provinces was different and they all harmonized to a lower level. The federal government put into place this program of so-called transitional funding of about $960 million. Essentially, we have argued that about $400 million of that funding to the maritime provinces comes directly from Ontario. Ontario, in that sense, is actually funding the harmonization or funding the safety net being put in place to fund these transitional costs.

Ms Bassett: That was the figure I was looking for.

Mr Gourley: That is a generalized figure. From an analytical perspective, I think the impacts on individuals have played a much greater role in the Maritimes than anybody expected. There have been a number of administrative challenges for the federal government and finance officials in the maritime provinces to work out; it hasn't been as simple as it was originally thought to be.

The Chair: We'll move to the official opposition for a four-minute round.

Mr Joseph Cordiano (Lawrence): I want to go over the graph which shows the balanced budget plan and the declines. I have a couple of questions with respect to the achievement of a balanced budget well into the next century, as planned by the finance minister. I want to know if you have any models you've used to determine what the impact would have been on the balanced budget plan had there not been a tax cut plan, what revenues would have been like if there wasn't a tax cut.

Mr Gourley: Basically, we've been working on the government's plan itself, and that's been the basis of all of our work. Obviously, each individual tax cut, and there were 10 tax reductions in the budget, has a specific incremental impact on the fiscal plan. We outlined those costs in the budget. I'd be happy to provide those to you.

We looked at the fully annualized cost of the personal income tax reduction. That figure is in the budget, I believe $4.555 billion. I don't have at hand the specific numbers for each of the other tax cuts, but they're actually in a special table in the budget.

Mr Cordiano: I didn't follow you. So you're saying you have a specific figure for the impact of the income tax cut on the province's revenues?

Mr Gourley: Yes, we do. The fully annualized impact of the actual personal income tax was $4.555 billion.

Mr Cordiano: That's for the total income tax cut, as planned by this government.

Mr Gourley: Right.

Mr Cordiano: In other words, if we took the impact for each of these fiscal years and applied that impact on to revenues, the amounts we see here would be lower. What I'm getting at is that you would have a budget balanced faster than you otherwise would because revenues would have been higher.

Mr Gourley: That argument has been made. On the other hand, you have to say, had the level of taxation remained as high as it was, would the confidence have been restored in business and in individuals and would you therefore have the other revenues that are going to come in as a result of that confidence? It's a bit of a mug's game and I —

Mr Cordiano: What I'm getting at is that you have an economic forecast model which projects what revenues would be, given certain assumptions. If you used the models, given the tax structure that was there before the income tax cut, you could project. Obviously you have, because you're estimating that the impact of the tax cut is a $4.555-billion revenue loss.

Mr Gourley: That was the figure we used in the budget.

Mr Cordiano: The other question I have is with respect to direct foreign investment. In Market Ontario the target is for 237,000 new jobs to be created by increasing foreign direct investment in Ontario by 2% for all of North America. Their objective here is to gain 2% market share. How many of those 237,000 new jobs are factored into the 720,000 jobs this government projected as its target at the time of the last election campaign? Is that included in the 720,000 jobs?

Mr Gourley: I think the government's job creation target includes all its plans and activities. Although I don't know specifically about that particular number, I believe it is included, otherwise it would take the job target up, and I don't believe that's the intention of the government. All the activities are designed to create jobs and stimulate job creation, and the target the government has set for itself was 725,000.

0950

Mr Martin: I want to follow up on the line of questioning we were on in the last round. You advised us when we were in government, and in 1994-95 the economy was picking up. As I said earlier, according to one of the folks who presented before us yesterday, over the last five years investment in Ontario was at a high rate. Actually, 1994-95, if I remember correctly, was an historically high time of investment in the province. People I talk to tell me that some of that is based on the development over a number of years of a first-class health care system that provides some benefit to people who come and invest here, a first-class education system that provides a high quality of employee, a highly educated employee, and an infrastructure that is second to none.

Given the numbers you've presented and the fact that the economy was picking up steam, and for now accepting that your numbers are correct — your job is to advise the government on what it's doing and how that will play out two and three and five years down the road. You agree that so far what's happening today particularly is not creating any new employment, and there are other jurisdictions that in this day of cutting and slashing and tax reduction are not doing that and are doing quite well. For example, an article in the Globe and Mail on December 18 talked about Norway having an inflation rate below 2%, the lowest unemployment rate in Europe and an economic growth of between 3% and 5% in recent years. They continue to invest very heavily in their infrastructure, in education and health care and the social safety net and roads, and their economy is doing well.

Have you done any figuring at all? Have you advised the government at all? The story we're hearing here from people who are concerned about poverty; and people from the agricultural community who are concerned about the damage to their part of Ontario by some of the decisions being made re the cutting of services and the reduction of government involvement in those areas; and students who are very concerned, some of them, that they may not even be able to finish — when I go around my community and knock on doors and talk to people, one of the concerns they raise is, will they be able to give their children a university education?

With all that in mind, why are we continuing to cut so heavily and why are we continuing to focus on the tax cut as — this is the word used yesterday — the "panacea" for recovery and good times for all of us who choose to live and work in Ontario?

Mr Gourley: I'd like to comment on a couple of the statements you made and attempt to answer the question you posed at the end. I'll like to clarify that absolutely, as we go to financial centres around the world, in Asia and Europe in particular and the US, we highlight Ontario's health system, education system and infrastructure, particularly the transportation system, as a major comparative and competitive advantage we have vis-à-vis other North American jurisdictions. We also talk about, I won't call it the "accident of nature," but our geographic location vis-à-vis the US market is a very important feature we promote. That does attract interest.

Speaking particularly to the health system, as the government's promise of $17.4 billion of investment in the health system — it actually has exceeded that in these past two years. As that number is maintained and as the total government spending envelope is reduced, obviously the proportion of moneys devoted to health will increase over time. The education system is a very important part of Ontario's competitive advantage and having a well-educated and skilled workforce is a very important element. The transportation infrastructure I mentioned.

You indicated that I had agreed that what is currently being done is not creating any new employment. I don't believe I said that. I believe we reported on 80,000 net new jobs being created in Ontario last year: 90,000 in the private sector and a 10,000-job loss in the public sector.

I would also point out in respect of the various forms of investment, the investment in machinery and equipment was, as you said, in the 1994 period reasonably positive and upbeat. That was obviously a good development for Ontario. But when you compare that with the non-residential construction activity — this is the increase in plant, renovations of plant, and I'm looking now at the actual figures we reported in our November economic statement — the figures for 1993 were a reduction in non-residential construction of about 20% and a similar level of reduction in 1994; in 1995 again a small reduction. Our projected level of investment in non-residential construction for 1996 is 6.1%, and we reported the 12% increase in the third quarter. I think that was there.

Coming back to your question, why is the government emphasizing the tax cut, I would say the government is emphasizing its overall plan, the whole plan. Perhaps the single most significant thing the government has done is actually this collection of initiatives to set out a plan that's clear to balance the budget. I can assure you that if Ontario were out of sync with the nine other provinces and the federal government vis-à-vis its fiscal policy, we would see quite different interest policies in Canada. We would affect the balance of Canada because of this dissonance in our fiscal policies across Canada.

We are enjoying interest rates today which I believe are in part — not solely, but in part — a large function of the government's policy to reduce the deficit and to establish a clear plan. Therefore, companies are more confident that the future will see a lower burden on them through such measures as the reduction in the employer health tax and other measures; they're more confident and able to invest. There has been a very significant impact on interest rates and investment as a result of the government's program.

Mr Tim Hudak (Niagara South): Mr Cordiano's questions brought something to mind about the impact of marginal tax rates on behaviour and on incentives. I think some time ago government got into a trap where it thought if it raised cigarette taxes, for example, by 50%, necessarily the tax revenue would go up by 50%, but indeed that's not the case. In fact, it changes incentives and behaviour and choices. If we were to raise the marginal income tax rate by 30% perhaps, as the Liberals would have us do, that would have an impact on the type of entrepreneurship we'd expect to see in the economy, I would assume, the types of choices, hours worked, these sorts of things.

Mr Gourley: The measure we focused on in the budget and felt was an important signal to people who were looking at the top marginal rates — that is a rate that entrepreneurs and other people look at as a measure of the return on their work. We are in a situation where the top marginal rate in Canada is lowest in Alberta. Prior to the government's proposed tax reduction, Ontario's top marginal rate was the highest in Canada. After the government's personal income tax reduction of 30%, or over 30% in fact, in Ontario our top marginal rate will be the second-lowest in Canada.

1000

That's a statistic I've used a lot. Only yesterday we were meeting with a group of investors in our building and Mr Dorey and I were speaking with them and they have $280 billion in investments under management. That $280 billion was represented by five people sitting around a table asking me questions. I was able to use this very statistic as an important statement by the government of where the future of Ontario's economy is going and what the government wants to say to entrepreneurs and individuals who are going to earn higher incomes, as to whether or not the government is interested in having them here and having them stay here.

It is a matter of judgement whether people actually leave. There are all sorts of opinions one can get, but I can tell you that when I gave that statistic, these people who had $280 billion worth of assets under management wrote it down as an important signal that they were looking for from this jurisdiction about our taxation policies. I was using all the things I've used here today in terms of firm plan, commitment, overachievement, all those things that are good, but this marginal tax rate story struck a chord with them like none other.

Mr Hudak: So it's not so simple. We're not working with — am I out of time, Chair?

The Chair: I would like to give Doug Rollins one minute, if he has one.

Mr E.J. Douglas Rollins (Quinte): Mr Salerno, in that our debt that comes due is your long-term debt — you talk about the 25- and 30-year debt, and I know you said you were trying to get some of that down on to shorter term — are you still trying to get a certain percentage of that into the long-term debt so that in the event that interest rates do, in the next two or three years — I know it's not in the foreseeable future but does that hedge us against a big increase again?

Mr Salerno: We have a policy of allowing us to borrow up to 20% of our total borrowing, net of liquid reserves, and hold back in floating debt. There are times that we'll build that up and get closer to that limit or at times we'll reduce it, depending on our call, essentially, of where we see interest rates going.

Frankly, even once we have in place some floating debt we can, through our trade, through our swaps of those instruments, convert that very quickly to fixed and at the same time we can go the other way as well. It's all a matter of making a call on where interest rates are heading.

The Chair: Thank you very much. That concludes our three-part saga with the Ministry of Finance. We thank you for your cooperation in meeting our scheduling needs.

HUGH MACKENZIE

The Chair: We now have Mr Hugh Mackenzie, an expert witness with the United Steelworkers of America. Mr Mackenzie, welcome to the committee. We have one hour together with you as an expert. I see that your report is being distributed to the committee.

Mr Hugh Mackenzie: If you'll pardon me just for a second, I'm just going to get myself prepared here. I'm going to start off here, if that's okay, and then move and sit down over there once I've gone through a few little slides.

First of all, I want to thank the committee for inviting me to make a presentation today. It's a pleasure to do so. I have to confess that one of the benefits or curses of my life is that I tend to do things at the last minute. Usually that serves me well, because things always happen that have an effect on what I'm prepared to do or what I want to do, and that's in fact what happened here.

What I'm going to do is start with a few slides that in a sense are a response or a comment on the presentation the minister made to you I guess last Friday about the state of the economy and about the state of the provincial budget situation. Then I'm going to come back to some of the more focused comments on where we're going in the future that I'd like to make.

The basic point I want to make is that I found the presentation the minister made last Friday interesting because it painted a very rosy picture of the current state of the Ontario economy and the current situation with respect to the Ontario budget, obviously for a purpose. But if you take a little closer look at the data, both at the details of some of the budgetary data and at both the details and some of the context of the economic data, in fact what you find is that whatever changed between the last time the minister spoke about the economy and today doesn't have anything to do with what the data tell you about what's going on in the economy, that something else has changed. Maybe it's political, I don't know, but certainly when you look at the data, it's hard to find evidence in the data of any kind of dramatic change in Ontario's economy or any kind of dramatic change in Ontario's budgetary situation.

I'm going to start with a couple of slides about the budget deficit. I do this with a bit of a sense of anxiety, because the exercise in responding to projections of budgets is fraught with danger because the data are frankly so often manipulated, sometimes consciously and sometimes unconsciously.

Let me just start by throwing this slide up — you'll find this familiar; there was a variant of this in the minister's presentation — showing 1995-96. For the people who are in the back, these slides are all in the printed material, so you're not at such a horrible disadvantage. It shows what looks like very good news with respect to the bottom line in the budget deficit: 1995-96, a budget deficit of $8.726 billion; 1996-97, a budget deficit of $7.672 billion.

But there was a footnote in the tables in Ontario finances to the effect that the 1996-97 data reflect an adjustment in income tax revenues paid by the federal government to Ontario under the tax-sharing agreement resulting from the 1995 tax year. When I did some checking, I discovered that the underpayment for 1995 came to a total of $578 million. So if you're trying to get a picture of what's happened to the fundamentals of Ontario's budgetary situation, clearly, it seems to me, an adjustment that reflects changes in the timing of payments that don't reflect what's really going on in the underlying economy have to be adjusted for.

1010

I understand that the accounting rules the government is following say that this money — for some reason expenditures are reported as they're accrued but money is reported as income when it's received. Somebody's going to have to explain to me how that's consistent, but as an economist looking at what this reflects about the underlying situation, clearly one ought to attribute the income of the government to the period in which it's generated. When you do that, when you take the $578 million that was reported as revenue in 1996-97, that really arises from the income tax system as it existed in 1995, and add it back into 1995-96 and take it out of 1996-97, you get a somewhat different picture. Instead of looking like that, it looks like this. So the $1 billion-plus improvement in the bottom line budget turns into a $200 million deterioration in the bottom line budget.

I took pains to protect myself, because there are a lot of games played with budgetary numbers by all governments. In this environment one of the favourite games is to start off with projections that look less favourable so there can be a modern-day miracle of the loaves and fishes and you end up with a better looking bottom line than you originally said you were going to have. But the only point I'm making here is that based on the numbers that were presented at the committee, the story is actually a little different than the numbers appeared to suggest.

Let me turn now to the economy. If you follow the minister's presentation last week what you find is that there's a great deal of emphasis in that presentation placed on the results from the Ontario economic accounts for the third quarter of the year 1996. Being a natural sceptic, I went back and looked at those numbers and tried to put them into a context to see what they were actually saying about the state of the economy and what the situation actually looked like.

I went back to 1991 to try to put this stuff into some context and measured the data in real terms, not in nominal terms, to take out the effect of inflation. You see a couple of things here that are very striking. Basically the data confirm for Ontario what has become the conventional wisdom of economic analysts. In other words there's nothing new happening in Ontario right now that is dramatically different from what analysts have been saying about the state of the Ontario economy and the Canadian economy over the past few years.

You've got a very rapid increase in exports. When I do broader presentations on the economy, I have a slide that I put up that looks at the Canada-US exchange rate, and this rapid rise in export performance coincides almost exactly with the change of policy of the federal government to allow the dollar to drop. You'll recall that around here, in 1991 — there are a couple of points, but one is that right here we were heading into our made-in-Canada recession, right here at the beginning. When we have a recession and the United States doesn't, our exports always increase. That's sort of a natural thing that tends to happen in recessions.

The other main thing that happened was that as the Bank of Canada backed away from its insane commit-

ment to keeping the dollar up around 90 cents and started to let it slide, you started to see export performance rising. What you're seeing here is evidence of a significant export push on growth, an export push that has been driving right through the 1990s. The only blip in this rise occurs in late 1994, early 1995, when the Bank of Canada panicked and put interest rates back up again and the exchange rate went up a little bit and we got some bouncing around in the economy.

But basically we've had a pretty steady rise in exports, the underlying evidence for export-led growth that everybody has been talking about for so long. In Ontario, export-led growth means auto industry. This is particularly significant here because as we move into this period here — commodity prices worldwide have been relatively weak — so this is not export performance that's driven by commodity price improvements; it's export performance that's driven by manufacturing, trade and particularly by the auto sector.

What's really interesting about the data is that if you look at both consumption and personal disposable income, both of which were cited in the minister's slide deck as significant contributors to his favourable view of Ontario's current economic situation, you find that the data show again exactly what the analysts have been saying, that compared with the rest of the economy, we've had a very sluggish personal consumption sector. The explanation for it is pretty obvious as well. The top line is personal disposable income. It shows that personal disposable income has essentially been flat since the recovery in 1994 was essentially aborted. It's been basically flat since then. Over the period of 1996 it actually went down a bit. That just reinforces what the analysts have been saying about general economic trends.

If you take a magnifying glass and look at only the last couple of years, those trends again look that much clearer. We've had essentially flat — keep in mind these are not per capita data; these are aggregate data. If you were to take this further and look at per capita numbers, you'd actually see a greater decline going on there. You can see that in the last couple of years the export boom, looking at that shorter period, looks like it's kind of evened off a bit, and we've still got very flat performance in consumption, and personal disposable incomes are flat as well.

I stress the personal disposable incomes one because you might remember the chart on personal disposable incomes that was in the minister's deck. I may use that in one of my little shows on how to make statistics work for you, because it shows essentially this picture, although it only focuses on that last little bit, so it's hard to tell exactly what's going on. As soon as you get past the present, in other words, as soon as you get past where we know anything, it goes up. I describe that in the text as a somewhat fanciful projection. If you're looking for a reason why consumption is flat, let me suggest that this may have something to do with it.

I have another slide that goes back another five or six years. This is median family incomes in Ontario in 1995 dollars. What it shows, and if this went back further it would underline it, is that from 1975 to 1995 the real incomes of the median family in Ontario, the average family, actually went down. That period from 1975 to 1995 has been the only period since the war in which that's been the case. If you look at a very long-term chart, you see a steady increase in living standards for the median family and then a flattening out.

What we're seeing in the data is not suddenly a dramatic improvement in the Ontario economy. We're seeing a reflection of the trends that analysts have been talking about for some time.

1020

There was another chart in the minister's presentation which struck me. It was not terribly informative. You recall that great, big, ugly black thing with 90,000 in the middle of it taking credit for large numbers of jobs created in Ontario in 1996. I took a little look at that as well and found some interesting things. Unfortunately this chart is pretty ugly too. First of all, the job creation numbers for 1996, when you check the StatsCan data, are actually 80,000, not 90,000. I think there must have been a typo in some of the minister's material that got through to there. I checked it two or three times because I worry about these things.

The interesting thing about those data is that in 1996, 45,000 of the 80,000 jobs that were created in the Ontario economy were part-time. That's dramatically different from the job creation performance in 1995, even though 1995 was not quite as good as 1996 in terms of job creation and wasn't nearly as good as 1994, which got up into the — actually, it was about the same.

There's a huge difference in the role that part-time employment plays in this growth scenario. In 1994 the economy was replacing part-time jobs with full-time jobs in net terms. In 1995 there was very little part-time job creation. Almost all the job creation that was going on was full-time. In 1996 we have this dramatic change in the composition of job creation so that more than half of the jobs created were part-time jobs.

If you look back a little further, looking at job creation, these are monthly data showing the number of jobs created since the corresponding month in the previous year. I've done this so that I don't have to worry about seasonal adjustment or anything, because I'm comparing December with December, November with November, October with October. The heavy line is full-time and the light line, which is a little difficult to see on this, is part-time. It shows the significant emphasis on full-time jobs as the economy started to come out of the recession in the period from 1994 to 1996, then job creation performance overall kind of flattening out as the recovery started to lose steam, and then in the critical period in 1996 you can see this huge ramp up in part-time job creation. This period here, interestingly enough, is the third quarter of 1996, which is the quarter that generated all the Ontario economic counts numbers that the minister got so excited about.

The basic point of the slide presentation is to say that it's hard to find evidence in the economic data for the very optimistic view of the minister about the current state of the Ontario economy, and it's very difficult to find evidence in the economic data for the self-congratulatory position the government has taken with respect to its economic policy.

What I'd like to do now is spend a few moments, before we get into questions, looking forward. I'm particularly interested in looking forward at the impact of the government's fiscal policy over the next two years and, in particular, its major policy on rearranging the relationship between the provincial government and municipalities, what the impact of those two facets of government policy are.

In defence of straying into the provincial-local government morass a little bit in this committee — I'm sure this committee would rather have it happening someplace else — let me just point out that one of the things we don't think about very much is that about half of what government does in Ontario involves local government in some way. In other words, the provincial government, historically, relies on local government, in one way or another, to deliver about half of the program activities that it undertakes. So when there's a major change in how that's done, you can see that there may be some interest in the economic implications of that.

It's a little difficult from the published numbers that the government has come out with to get much of a handle, to get a clear handle on what is happening on the spending side of the equation. We know that there's another $3.8 billion to come out of the personal income tax system, according to the government's projections, but the government doesn't make medium-term forecasts of its expenditure activity going beyond the next I think fiscal year after this one.

In order to do the analysis that I'm about to talk about, what I've done is gone back to the Dominion Bond Rating Service, which is always right in its projections, and taken the Dominion Bond Rating Service's projections of provincial program spending and debt interest as the basis for this analysis. If you look at those numbers, what you have is about a $3.8-billion reduction in personal income tax revenues as a result of government policy and about a $6.8-billion reduction in spending compared with the current fiscal year as the government rolls through to the end of its mandate.

What I've done is I've looked at the positive effect on job creation of the income tax cut and the negative effect on employment of the spending cut and balanced them off against each other. I'm not going to bore you with the details of the multipliers involved, except to say that there's a general consensus among people who do this kind of economic forecasting that income tax cuts have a relatively weak job creation impact. The analysis that I've put forward here suggests that a $1-billion cut in income tax generates about 12,000 jobs. On the other hand, a $1-billion reduction in wages paid by the public sector to public employees results in a loss of about 56,000 jobs.

The reason for that can either be very complicated or very simple, depending on how far you want to delve into the arcane regions of economic modelling, but I guess the simplest way of describing it is that what matters in measuring the economic impact of government activities is how the money that is spent circulates in the economy.

When money is put back into the economy by an income tax cut, it leaks out very quickly in many ways, particularly an income tax cut like the one that Ontario is working its way through, which is tilted towards the higher end of the income scale in terms of dollars. Money leaks out of the economy through purchases of imports. It leaks out of the spending stream through savings, through debt repayments and so on.

1030

In the first few rounds, those leakages are much less apparent when you're talking about direct spending, and particularly if you're talking about paying money directly to people. But the bottom line is that if you take those two main facets of the Ontario government's policy, the $3.8 billion remaining to come on the income tax cut side and the $6.8 billion that is still to come out of the spending stream and put them all together, you end up with an estimate of approximately 225,000 jobs that will be lost as a result of this government activity, of which about half will be in Ontario and about half will be in the rest of Canada.

The last point that I want to make has to do with the reallocation of spending responsibilities between the province and local government. I want to emphasize this because there has been a lot of discussion about the impact on municipalities versus the impact on the province's balance sheet of these changes, and in fact those have been taken into account in the analysis that I've done. For example, when I look at the cuts in provincial transfers to municipalities, I take into account the fact that some of that is going to translate itself into property tax increases. But there hasn't been a lot of attention paid to the economic impact of these kinds of changes, and I want to spend just a few moments talking about this.

A lot of the services that we're talking about here are services that are really critical to the long-term health of the Ontario economy, and I don't think that's a very controversial statement. We're talking about public education, and it is now conventional wisdom that public investment in education is very important for the economic future of this province. We're talking about expenditures on roads and transit and sewer and water services and other kinds of public infrastructure, and we're talking about investments that contribute significantly to a quality of life in this province that has been recognized around the world.

Quite apart from the question of what in fact the change is, just the fact that all these services, the way these services are being provided, are essentially being thrown into a hat and tossed into the air and redistributed is going to have a huge transitional impact on the public sector's ability to provide those services.

But I think the more important point, longer-term, is the nature of the division of responsibilities that has taken place. I did a quick count when I was putting these notes together of the number of bodies that have looked at the rational distribution of responsibilities between the provincial government and municipalities and school boards. I lost count at six that have gone through the exercise and produced reports in the last dozen years, beginning with the Provincial-Municipal Social Services Review, which was started under the last Conservative government and completed under the Peterson government.

There was the so-called Hopcroft report, a committee chaired by Grant Hopcroft, that was commissioned by the Peterson government and delivered its report just after the change of government in 1990. There was the so-called disentanglement exercise, which was an exercise of the previous government. There was the Property Tax Working Group of the Fair Tax Commission and the final report of the Fair Tax Commission itself, both of which I had some involvement in working with.

What's striking about those reports is that over a period of a dozen years, under four different governments, with three different parties coming at it from a number of different perspectives — the PMSSR looking mostly at how to deliver social services most effectively; the Hopcroft report focusing largely on issues of accountability; the disentanglement exercise looking primarily at appropriate levels of government to deliver various services; and the Fair Tax Commission exercises looking at least in part, in addition to those other factors, at how division of financing responsibilities dovetailed with principles of tax fairness — despite those different perspectives and different primary objectives, every one of these exercises came up with essentially the same answer: that services to people, services that relate to income distribution, services that deliver benefits that go significantly beyond the boundaries of a municipality ought to be delivered by the provincial government and services that are primarily local in nature and services that are, generally speaking, hard services, ought to be delivered by local government.

What has happened is that in a number of critical areas this government is doing exactly the opposite. I think that the long-term implications for the economy of that kind of shift are really profound. I'm frankly not terribly encouraged by the news from yesterday that one of the quid pro quos is going to be that municipalities are going to have some say in the establishment of welfare rates. I really start to worry that we're in danger of getting into a patchwork quilt in a very important area of social services driven by a fiscal agenda which, at its root, comes back to the tax cut.

The conclusion I come to at the end of all of this is that the fiscal course the government is embarked on at the moment, and particularly the emphasis on continuing with the income tax cut, is going to have a profound negative effect on the Ontario economy. The changes in responsibilities between the province and municipalities are going to be profoundly disruptive of our ability to provide those services and, in the long run, are not going to serve the economic interests of the province. My bottom line position, I guess, is that the starting point towards getting things back on track is for the government to decide not to proceed with the next phases of the income tax cut and to start to focus on some of the problems that these things have created.

In closing, from a political perspective, I ought to be encouraged by the fact that the Minister of Finance is so keen on declaring victory in the deficit and economy fight because that suggests to me that some of the criticism from unlikely sources like the Board of Trade of Metropolitan Toronto of the government's determination to proceed with the tax cut, notwithstanding the other things that go with it, is starting to get to the government.

Mr Martin: Thank you very much, Hugh, for coming before us this morning. You certainly present a different picture from what we received from the minister and his staff over the last number of days as we sat on this committee; also a different picture from a couple of economists who came before us yesterday who referred to what's happening in Ontario as a Cinderella story.

The problem I'm having with all of this, and I have to tell you I struggle with it and it keeps me awake at night sometimes trying to figure out just exactly what is going on — I'm not an economist; I'm a politician from a relatively small community in northern Ontario that is feeling the pain of the program this government is introducing to us as a jurisdiction in Canada.

1040

The government and the economists who came before us yesterday seem to be spending a lot of time with people outside this country who are telling them things about what we're doing that I think make them feel that somehow the news is all good and that what's happening is, in the long run, going to be better for us and fits in with any plans they have for the future of what they're playing in, which is a global economy.

We had people come before us yesterday: students; a municipal councillor who also owns a farm in rural Ontario; a person from the Ontario Road Builders' Association; even some people from the Alliance of Manufacturers and Exporters Canada group. I suggest that all of them were painting a picture that was quite disturbing, however couched in language that was trying to win some favour or curry some favour with the government in some instances. So if you listen to the people who are out there trying to make a living and trying to create some jobs and make ends meet on a municipal and regional level in the province, you'll hear one thing.

I know that in my own community we've done a little bit of a study of the impact so far of some of the activity of the government. We determined that by the late fall of 1995, which is the first year we had this government and the cuts to welfare and the cuts in government service in the fall of 1995, we in Sault Ste Marie had probably seen a reduction in the money circulating in our community of probably close to $50 million.

If you put money in the pocket of a poor person, he spends it immediately and it creates a spinoff effect. If you give wages to nurses, teachers, social workers and others who work for government, a good chunk that money is spent in the community in which they live. They pay taxes, they improve their homes, they buy cars, and it has a very direct and positive impact on the community in which they live. Our guesstimate of the tradeoff re the tax break that is suggested is that the positive impact would be minimal. We're expecting that by the end of this government's program we will be down 1,700 jobs or thereabouts in Sault Ste Marie.

I ask as somebody who is not an economist: How do you explain the juxtaposition between the two groups and the gap that seems to be growing in terms of understanding and support for different approaches to how we do the economy?

Mr Mackenzie: People respond to things in their economic interest. If you look at one picture that I could have put up there, it contrasts I think in a really interesting way what's been happening to personal disposable income to what's been happening to corporate profits before taxes in Ontario. There has been a significant improvement in the profit picture, steadily throughout the 1990s. It didn't start with the election of this government; it's been pretty steady throughout.

If you're an operator in an export industry, export industries are doing very well because, as I said in my presentation, once some sanity hit the Bank of Canada and it started to allow the dollar to drop down to a more realistic level, the economic activity really came flooding back in the export-oriented sectors.

In some sectors like steel, with which I'm quite familiar, the principal impact has not been in employment; it's been in the profit margins the corporations are able to make on their sales of steel. As a resident of Sault Ste Marie, you can just look down the street and see one of the positive impacts of our retreat from our insane exchange rate policy of the period from the late 1980s to the very early 1990s and the impact it had initially on Algoma as Algoma was in decline, and then the impact of the change in that policy as it's moved in the other direction.

In auto parts, changes in the exchange rate actually have a significant impact on where jobs are located because a lot of these plants are very mobile, so when the exchange rate rises to a level that's not rational, the jobs and the activity tend to move. If you're an employer or a business person in an export sector, you're quite happy with the way things are going right now. There's lots of money to be made in the export sector.

But you can see from those data that that's not trickling anywhere and it's not having the impact on people's living standards that similar kinds of expansions in the past have had and part of that is because of the way the structure of the economy is changing, including the kinds of things this government is doing.

Mr Jim Brown (Scarborough West): Thanks for coming. I agree with you on letting the dollar find its true value and help people in Canada who export.

Mr Mackenzie: Can I just make a comment? One of the things that always baffles me is that I listen to my morning radio show and I hear people cheerleading when the dollar goes up. I guess all the people who are doing the cheering must be planning vacations in Florida because if you care about your job it's not happy news when the Canadian dollar starts to go up.

Mr Jim Brown: I had a little manufacturing company and I did export and I loved the low dollar.

A lot of what you say in your report is predicated on the chart on page 2 whereby you added the adjustment in 1996-97 back into 1995-96. I guess you meant to imply that we're on the accrual basis so why didn't we accrue that amount in 1995-96.

Mr Mackenzie: I'm not —

Mr Jim Brown: If I can just go on, if one follows that, being an accountant I would want to accrue something in 1996-97 of an amount equal to $600 million and then that would really take your 1995-96 — you've got 8,148 and you would be, in 1996-97, probably 7,400. So if we did the accrual, what you're suggesting, we would even be even that much better off, which would refute much of what you said later in the report.

Mr Mackenzie: I can only assume that the people who are doing the income tax forecasts for —

Mr Jim Brown: They're going to be more accurate than they were before and there won't be any surplus? I doubt that very much.

Mr Mackenzie: One of the minister's charts actually breaks down the change in income tax compared with what they originally forecast.

Mr Jim Brown: If you think for one minute the feds would give more money than they're supposed to — that's being Pollyanna, I think. There's always going to be an adjustment that they're going to end up giving us.

1050

Mr Mackenzie: I'm trying to answer your question. The minister presented a chart that broke down the changes in the 1996-97 income tax revenues and it did show an increase in revenue for 1996-97 over what they originally expected to get, over and above that $578 million. So I think that has been taken into account.

As I said, I don't confess to be an expert in accounting. What I'm looking at as an economist is, what do the numbers that are coming in tell you about the underlying economy and what do they tell you about the underlying position? I look at the adjustment that was paid by the federal government in a way as like the extraordinary items on a profit and loss statement, that you're happy to have the money, but what you want to know is what's going on underneath. I think it must be absolutely clear that taking money that arose from economic activity in 1995-96 and putting it into 1996-97 makes 1996-97 look artificially good.

I also said in my remarks that I have no doubt there are pockets of overestimates and underestimates all over the place in the budget. Just as Paul Martin has made an art out of underestimating revenues and overestimating expenditures and producing fiscal miracles every time he has a budget, I have no doubt that the people who put together the numbers here will be just as creative.

My point is just that the picture that's presented, from my perspective as an economist, doesn't help me that much. It confuses me about what's going in the underlying economy, and when you look at the numbers for the underlying economy, you don't see the basis for that.

Mr Joseph Spina (Brampton North): Mr Mackenzie, for a highly paid researcher I'm surprised at your admission that your presentation was hastily rushed together. You've claimed scepticism of the numbers that were presented by the Ministry of Finance and, frankly, sir, I'd place more credibility in the high amount of research they put into their presentation than perhaps I would yours.

I would like to clarify one thing. You indicated that in the minister's statement there were 90,000 bogus jobs. These were private sector jobs. There were 10,000 from the public sector. That was the job loss, which is the 80,000 net.

Mr Mackenzie: Okay.

Mr Spina: I would challenge you on this one item, the contradiction I see in your claim that consumer disposable income is low, is stagnant. There are numbers like auto sales being up 20% in November compared to November 1995; fourth quarter home resales have risen sharply to 176,000 and an annual rate up 57.4% from a year ago; retail sales have risen — Statistics Canada numbers — 2.1% in November. Are you suggesting that these are lies, that these are creations of somebody's mind, that these are creations of the Ministry of Finance and the minister of this government?

Mr Mackenzie: No, I'm not suggesting that at all. What I'm suggesting is that if you look at what's happened on employment and you look at the general trends in the economy, when we see the numbers for the fourth quarter of 1996, we will not see a continuation of the bump that happened in the third quarter. That's what I'm saying.

Mr Kwinter: I just want to tell you that our finance critic, Mr Phillips, has been making the point about that $578 million for some time, and just to answer the question that was suggested by Mr Brown, it's like on your balance sheet, if you show that you're making a profit because of depreciation and if that's the only profit you're making, you're not going to be in business for very long because you're going to have this great depreciation —

Mr Jim Brown: But a lot of companies are, Monte. You know better than to say that.

Mr Kwinter: No, what I'm saying is that it's going to look good on your statement because you made a profit because you're depreciated your assets, but that isn't a real profit per se. It shows good on the statement for the bank and it shows good for other things, but as I say, you can't make a living on your depreciation. I'm suggesting that somewhere along the line, when you change the accrual method — and it's fair ball if that's the way it is and you show it because it could happen the other way around and you're going to lose it. I'm just suggesting that it is an issue of concern and it's something that should be looked into.

After our session yesterday there was one presentation that really disturbed and I asked about it. I went home last night and tried to analyse it, and it suddenly came to me that we're having a little problem here. I think the role of this committee is to try to balance the different perspectives. You obviously come with a perspective from the labour movement and you're going to give your particular bias. I don't mean that in a negative way. You have a particular bias; we have other people who come with their particular bias.

The thing that surprised me was, we had someone from Scotia Capital and he showed me a chart that he said the Germans just loved that showed that the combined deficits of all the jurisdictions in Canada was just over $10 billion, which made no sense. It just absolutely made no sense to me. He tried to rationalize it: "Well, it depends. There are three different figures." It just makes no sense.

Then I listened to Canada Trust and their decision that Ontario was in a Cinderella mode, it was just booming and it was really a magnificent story. Then I listened to the Ontario Road Builders' Association, and throughout their presentation they were highly critical of what the government was doing, said that it was irresponsible, said that all these things —

Mr Cordiano: Concerned them a great deal.

Mr Kwinter: — concerned them, that it was going to be a major problem. At the very end — I want to quote and I'm just giving you this to the background because I want to get your comment. After it was all through and they said that the auditor general has said all these different things, it says, "...continued underfunding is an irresponsible course of action." This is what they said in the body of their presentation.

In the last paragraph they say: "In concluding, we would note for the record that our association supports fully the economic objectives of the Ontario government and we commend the determination with which those objectives are being pursued." You say how could that be? Are they written by two different people or are they two different reports? Then suddenly you realize the only customer they've got is the government. Who else builds roads? So they've trashed them completely —

Mr Rollins: The municipalities do that and you don't like that.

Mr Kwinter: When you look at that, you say: "What's going on here? Are we getting the straight goods?"

Then we have a report from the Alliance of Manufacturers and Exporters and they say: "However, the domestic economy depends on consumer and government spending. It is barely growing at present, and is likely to remain weak for several years."

The reason I bring that forward is that I think this is a group that has a particular point of view but probably has a more even point of view because they represent manufacturers, exporters, business people and this is what they see. The truth has got to be in the middle there somewhere.

It would seem to me that we have a problem because, depending on who is making the presentation, we're getting a different point of view. Unfortunately one of the challenges we have is that we've got to try to come up with what is the real answer. I wonder if you have any comments on that.

1100

Mr Mackenzie: My general comment would be to repeat what I said earlier, that I think people tend to respond to these things based on their perception of their economic interest. I think your point about the Road Builders is quite astute, that they are internally conflicted. On one hand they're very unhappy that there's less money going into that, but on the other hand they don't want to make the government mad because they're afraid the government might take more money out of it. That's going to be a concern.

I think that people who are involved in export industries are quite happy at the moment. The exchange rate policy is helpful to them and they're not doing badly. The bottom line for people and what the economy is doing for people is what you see when you look at what's going on with disposable incomes and family incomes and employment and part-time versus full-time employment. Those are the kinds of problems that I see

every day, and it doesn't look like much of a boom to me, which I find quite frightening. Right now we are riding on a bubble, an export bubble that's created by a very long-term period of expansion in the United States. Partly because of exchange rate policies, partly because of the weakness of the domestic economy and partly because of the free trade agreement our economy is far more dependent on the health of the US economy now than it's ever been.

My worry for the future is that we have an uncontrolled experiment about to happen in Ontario: What happens under free trade and the kind of exposure we have to the US economy when the US economy goes into recession? As I said, it's an uncontrolled experiment. We don't know what's going to happen, but if I have a real fear about the medium-term future, that's it, because we are incredibly exposed to the US economy.

The Chair: Thank you very much, Mr Mackenzie. We appreciate your presentation before the committee today and taking the time to come.

Mr Gerry Martiniuk (Cambridge): Mr Chair, I'm somewhat confused on a point that one of the witnesses raised. They discussed actual debt which was substantially higher than the DBS standard. I was wondering if the legislative research person could be instructed to provide us with a definition of debt as defined by the DBS. I understand that is the international comparison standard. I wasn't aware there was a distinction and I'd like that information.

The Chair: This is in reference to Mr Kwinter's comment on the estimate from Mr Manford?

Mr Martiniuk: Yes, that's correct.

Ms Alison Drummond: His table, and I believe Mr Kwinter's questions as well, actually dealt with the deficit. Are you interested in the definition of "deficit" or of "debt"?

The Chair: Is it "deficit" or "debt"?

Mr Martiniuk: Debt. The definition of "debt" that the DBS uses.

Mr Martin: On that same subject, Chair, I would be interested as well in some work by the research department comparing what Mr Mackenzie has just presented with what the government has actually presented to see if there is any basis at all to either argument for the numbers.

Ms Drummond: That's specifically on the issue of calculating the deficit?

Mr Martin: Yes.

CANADIAN ADVANCED TECHNOLOGY ASSOCIATION

The Chair: If I could just introduce the next witness, Ms Shirley-Ann George, from the Canadian Advanced Technology Association. Ms George, welcome to the committee. We have 30 minutes together. Thank you for joining us.

Ms Shirley-Ann George: Thank you very much. I understand I have about 15 minutes for a presentation and 15 minutes for questions and answers, so I'll jump right in.

I'd very much like to thank you for the opportunity to be here today. We believe strongly that an open process is the one that is going to bring about the most progressive budget and action by the government.

I'm Shirley-Ann George, the executive director in Ottawa for the Canadian Advanced Technology Association. In listening to the previous presenter, I'm not sure if it's good or bad that I'm not here to ask for more money and I'm not here to say you're doing a lousy job.

CATA represents over 450 members from across Canada; over 250 are Ontario-based corporations. These companies come from the best of Canada's new economy and include sectors such as aerospace, computing, defence, medical devices, software and telecommunications. Some of our better-known members are organizations such as AIT, CAE, Calian, Cognos, Corel, DY4, Gennum, IBM, Mitel, Newbridge and Nortel. These companies are heavy investors in research and development and generally get over 70%, often over 95%, of their revenues from outside of Canada. CATA's mandate is really quite straightforward: to ensure that Canada and Ontario remain a competitive place from which to do business, because we don't do a lot of business here.

Our members thrive in an environment where product life cycles are becoming shorter than their development cycles, where capital markets demand double-digit growth and are extremely brutal if you don't meet your quarterly targets. It is an environment where you are expected to survive only if you are in the top two and maybe, if the market is large enough, top three in the world.

It is a world where time is measured in days, and very seldom do you have the luxury of months, where solutions that are years away are as relevant as those that are a millennium away. It's an environment where Ontario-based companies are doing extremely well.

To give you a sense of the expected growth, last summer we did a small survey of 150 of our members. They projected a need for over 7,000 new employees in the next 12 months. That's direct jobs. If you use the standard three to four multiplier, that's 30,000 jobs coming from 150 Canadian organizations.

Our members must continue to experience this high growth. If they don't, they will quickly die or be acquired by others. The question for the government of Ontario is really quite simple: Where will they grow their businesses? These CEOs are proudly Canadian. Their global travels have taught them far better than most who live here that Canada and Ontario are the envy of the rest of the world. They will only leave Ontario if they are forced to, but we should not doubt that if they are pushed, they will go.

The province of Ontario lives in the same world. You must compete on a daily basis for your employment base. There is no comfortable middle ground left. Ontario must be viewed as one of the top 10 technology clusters in the world or it will simply become a non-player.

How is our competitive environment? Frankly, it's good, and the factors point that it is moving up the scale. Both the Ontario and federal governments appear to finally be serious about getting their spending under control, and we applaud you for your efforts. In order to maintain our confidence in your government, you must

not waiver from your financial commitments, you must make every one, no matter how much the vested interests demand otherwise.

Your cost-cutting measures have also been selective. The Ontario government has left intact its support for industrial research and development through super-allowance program. This program, coupled with the federal government's SR&ED tax incentive, is considered absolutely fundamental to our ability to continue to grow our businesses in Ontario. Unlike other jurisdictions, Ontario has almost all of our eggs in one basket, and we'd like to thank you for having the foresight to understand how important this program is. You've also moved to reduce personal taxation, unfortunately not remove it.

Our members' only significant assets are people. We cannot remain competitive and make up for the huge compensation differences that are required to offset our competitors' offers, which include much lower personal taxes. Just to give you a sense, for us our competitors are in places like Texas, where there's no state tax. If you're earning in the very high tax bracket, the top grade is around 29%. That's extremely difficult to compete against.

Even with all the hard work your government has put into ensuring our confidence in Ontario, there are some obstacles on the horizon that you should be very concerned about. Because of the limited time, I'll speak to only two of these challenges: the critical shortage of qualified human resources and a level playing field with our US competitors for mergers and acquisitions.

Although the shortage is felt in more fields than just software programmers, I'll use this as an example to demonstrate how very serious the problem is. In Ottawa-Carleton it is estimated that we need at least an additional 2,000 programmers every year. The Software Human Resource Council estimates that the Canadian shortage is now 7,000 to 9,000 and will grow to 20,000 by the year 2000. This is coupled with the "brain drain" problem.

Last year we did a small survey at the University of Waterloo with the computing and electrical engineering students. There's a copy of the report in your package. We went down there to try and determine for our members what criteria they're using to select which job they take and we were horrified to find out that 75% are willing to consider US employment. Without a good supply of ready-to-go brains, we cannot develop the products that will keep us at the leading edge.

Unfortunately, at the same time US recruiters have discovered Canada. We have become very fertile picking ground for US companies. We must develop strategies to compete with this threat. Taxation is indeed part of the problem, but it's not the only issue, and I encourage you to look at the other issues that are in this report.

1110

This problem is not a speed bump, it's a 1,000-foot brick wall, and we are heading at it very quickly. For some companies, they're already there. Just this weekend, in the Ottawa Citizen, there was a report of companies that are picking up and leaving Ontario because they cannot find the employees they need, but they are available in other areas.

Currently, only 700 of the 11,300 students graduating from the three Ottawa-Carleton universities and colleges have the technical skills that the information technology companies need, and not all of these are programmers. We have a critical shortage and only 6% of the graduates are qualified to take the jobs. It's not any wonder that there are thousands of jobs waiting.

CATA, in partnership with the Ottawa-Carleton Research Institute, OCRI, is working on an industry-led initiative to deliver an additional 2,000 programmers per year from Ottawa-Carleton public and private institutions by the year 2000.

There will be a key role for the province in this initiative and I encourage you to take a leadership role in working with this group. More, a lot more, must be done to increase the number of qualified graduates. We are willing to work in partnership with you if you are willing to remove the barriers and find meaningful solutions.

The final issue I will leave with you is one of those problems that comes out of left field and is undermining the progress you've made in ensuring Ontario's competitive position. Successful companies, especially IT companies, can only meet the growth targets mentioned earlier if they include mergers and acquisitions in their corporate strategy. The unlevel playing field that we are faced with is commonly known as the "goodwill" problem.

Today, US companies have two strategic advantages over Canadians when competing and accounting for buyouts. US companies record mergers and acquisitions in one of three ways. Those that meet 13 stringent requirements can never show the costs of the purchase by using something called pooling of interest. Others can take the intangible assets and write them down immediately through in-process write-downs of R&D. The third, and effectively only, option open to Canadians is to record the intangible assets as goodwill and take a hit each and every quarter on your earnings to write it off over three to five years.

For a software company, 70% of the mergers and acquisitions that are taking place in the US use one of the first two methods. The use of either of them gives them a competitive advantage over how potential acquisition targets view Canadian offers and the financial analysts view of Canadian corporations' capital value. There's a copy of the RBC Dominion report that goes into more detail on this issue.

The accounting problem belongs squarely with the Canadian Institute of Chartered Accountants, CICA. We are working with them and the Ontario Securities Commission to level the playing field. Unfortunately, we are making very little progress. Advisers to Canadian companies are now recommending that technology companies going public should seriously consider bypassing the Canadian capital markets and go public only in the US and report only using US GAAP. Canadian corporations that are already listed on Canadian exchanges are being forced to do dual US and Canadian GAAP reporting, with the Canadian GAAP becoming the irrelevant fine print in the back of the book.

Proponents of the status quo will tell you in great detail why the Canadian system is better, how the US is

the one that's wrong and the one that is offside from the international standards and how there is work that is being done to get the US to change its ways. The reality is that we are 2% to 3% of the global marketplace and they are the dominant player. These proponents are not listening to what we're telling them, that solutions that are years away are useless and it doesn't matter who's right or wrong, it only matters where the competitive playing field is. If we cannot get a level playing field, we must either make one or go to where we can enjoy the same advantages as our competition.

There is a crisis in the Canadian capital market and for Ontario's fastest-growing technology companies. At a time when we have significant pools of equity capital in Ontario, our companies are going to the US for their capital needs. It is very unhealthy to have our ownership based solely in the US.

The next generation of Newbridges in the job-creating sector are queuing up at the doors of buses that will help them leave town, and they are pleading with someone to wake up and let them stay. To solve this problem we need one of two things: By far the best solution is to have the CICA allow Canadian companies to use US rules for mergers and acquisitions until they are successful in getting the US to adopt international standards. The second option is to ensure that the OSC allows Canadian corporations the same latitude their American competition uses when listing on the TSE today, and that is to report under US GAAP with reconciliation statements. Current rules with the OSC make this very difficult. We ask for your help and support in fixing this important matter in the very near future.

In summary, we are asking for you to stay the course with your fiscal commitments. Your continued support of technology companies through the superallowance and further personal tax cuts is vital. We need your support in a concerted effort to dramatically increase the number of skilled workers coming out of higher education institutions, in part by ensuring that moneys are specifically directed to areas where there is a high likelihood of employment. We need the government of Ontario to take a leadership role and ensure that all the elements affecting Ontario companies are focused on ensuring our competitive position.

We truly believe that we live and work in a wonderful place. It's a great place to grow our businesses and raise our families. We are willing to work in partnership with Ontario to ensure that it remains a competitive place to do business from. Let's put some focused effort into this and Ontario could indeed become the more attractive technology cluster in the world, and we should settle for nothing less.

Ms Bassett: Thank you for your presentation. It was just fascinating. There are of course many aspects you touched on. As parliamentary assistant to the Minister of Finance, I've been working with the Ministry of Education on an income-contingent loan repayment program. When you talk about the jobs out there and yet we need ready-to-go brains to fill them, do you think that moving in this direction will be one way to help students prepare?

Ms George: This is a very complex problem, but without a doubt we have to make sure that any student who has the capacity to work in the field has the opportunity. We can't let income, or the income of their parents, to be more specific, be the factor that determines who gets in and who doesn't.

Ms Bassett: Do you think, though, if this program comes in — and we are all behind it; we are just waiting for the feds to come on side totally — that it will be a step towards getting enough people into the jobs that need to be?

Ms George: It's absolutely essential. As somebody who pays university tuition on a regular basis, the reality is that we cannot expect the governments of Canada to continue to subsidize university tuition to the level they are. If that has to go, if that has to change, then we had better have something else in the backup and an income-contingent loan repayment plan just makes a lot of sense.

Mr Spina: Thank you, Shirley-Ann, for coming down. We've had many conversations in the past. I just wondered if you could explain a couple of other items on the barriers besides the taxation issue, investment at the post-secondary level and the access to capital, and that's really with over-the-counter trading and things like that. Are there any other areas that we could address and make recommendations on to the minister for this budget?

Ms George: Without a doubt, the thing that I hear most often is the human resource issue. We have to find a way to ensure that our education system is flexible enough that it can stay up to speed with an industry that is absolutely in a period of flux. I can't tell you that five years from now we're going to need 20,000 programmers. All I know is that five years from now we'll continue to have a very high need for highly skilled labour. We need a flexible and current education system.

We need an environment where our corporations feel that at a corporate tax level they are in a competitive position with their competitors in other technology clusters.

1120

Mr Cordiano: I appreciated your comments with respect to what's happening in order to maintain a steady flow of highly skilled, highly educated people. Yesterday, we heard from the Canadian Federation of Students — Ontario. They made a number of recommendations, and among them were an immediate tuition freeze and a restoration of the cuts that this government has brought about in the college and university sector, which amounted to about $400 million. They were also expressing very grave concerns about the income-contingent loan repayment plans because of the high level of debt that students currently hold, and I think the average was about $24,000 per student. Do you agree that it would create a disincentive for students to continue with higher learning or education in universities if they were taking on additional debt?

Ms George: Will it disincent some? Yes. If you look down to the US, where students coming out of that system can have debts far higher than $24,000, I think you'll see that good people still go to university.

Mr Cordiano: They can, but the fact of the matter is that most of the US state schools — let's not even talk about private schools — have incredible funding at the

public level for those public institutions. They have endowments and trusts for private universities and private colleges which offset those increases or the high levels of tuition fees that exist in the US. Most of the students there who cannot afford it or do not have the kind of money we're talking about would be accessing those institutions via those trust accounts. The kind of accessibility that's there and the funding that's there for those types of students are far greater than we're providing right now. In fact, we're falling behind the US.

Ms George: I can't speak for the entire US system, but my nephews and nieces all left university with debts far higher than $24,000.

Mr Cordiano: I went to an American school. There were many more bursaries, many more scholarships.

Ms George: Oh yes, that's true.

Mr Cordiano: That's how I got to go to one of the American schools to do an MBA. They have research assistantships. We don't provide anywhere near the kind of funding that's being provided south of the border.

Ms George: The reality is that we're in a transition phase. You have to remember that we still spend a huge amount of money on higher education, and if only 6% of it is going into areas where there are job opportunities, maybe what we can do is redirect some of that money into bursaries and scholarships in the areas where there are job opportunities.

Mr Cordiano: Do you agree with this government's funding cutbacks, which have been severe with respect to universities and colleges? That can only hurt the prospects for more highly trained and highly educated people of the calibre you need in science and technology. I think it's going to badly hurt your industry.

Ms George: It could indeed, if nothing else changes. If you look at 6% of the money going to where we need it, that provides 94% for some readjustment, and I'm not suggesting that the higher education budget should go exclusively into the technology field, but the government still has a lot of flexibility over where an awful lot of money goes. It can go into other things, including the income-contingent plan, but also into more bursaries and scholarships and funding assistance for areas where there's a high likelihood of employment.

You're right that as we make these cuts, there are going to be painful transitions, but there are also great opportunities to readjust the entire system, to re-engineer and make it more usable in the future.

Mr Cordiano: They're not funding science and technology and the areas that we need the funding to go into in our universities. They're not doing that currently. It was a cut right across the board, the $400 million, so you're not getting preferential treatment for that type of student, that kind of training that's necessary.

Ms George: Yes, and that is one of the points I wanted to make today: If you want to have these jobs stay in Canada, you're going to have to find a way to direct the money so there are more students to —

Mr Cordiano: Right. So you must disagree with the government —

The Chair: Thank you very much, Mr Cordiano. We'll move to the NDP.

Mr Martin: What I hear you saying in this presentation is that you need government to work with you to make sure we maximize the potential in this field, and that right now, one of the problems is a lack of people trained to participate and take advantage.

I agree with you that we need to be putting more effort and resource into making sure our young people have a shot at participating in this newly evolving field of economic activity. But I can't juxtapose that with the cuts being made presently to the education system at all levels. It doesn't indicate to me a commitment by a government to making sure our people have the best of opportunity and are going to be prepared to take advantage of what you indicate are rather exciting possibilities.

I want you to comment on that, and I also want you to comment on your other claim that lower personal taxes are also an incentive. If you lower the personal taxes being paid in this province, you take away from government the ability to invest in education systems. It seems a bit of a contradiction there. Perhaps you could help me understand that more fully.

Ms George: You're right that if what the government does — and there's an opportunity here, hopefully, to influence the next budget — are just across-the-board cuts and it doesn't either allow the universities to direct or ensure that the universities direct funding into the technology sector, we have a critical problem. Our companies will unfortunately be gone before you ever solve that, if that's what happens.

If what the government does is look at the problem — and it's more than just money; we have thousands of history professors or whatever and not enough people who can teach computer programming at the university level. It's not just one thing, but definitely, in order to grow the number of graduates, more of the education money is going have to go into those areas.

Mr Martin: How do you juxtapose that with the personal income tax cut?

Ms George: The cold, hard reality — let me give you one example. An executive from one of Ontario's largest corporations was working at the vice-presidential level in their operation in Texas; he came to Ontario and took a $50,000 cut in income by coming here. If we cannot attract the world's very, very best to lead our companies, we will have to take the operation and move it to where we can. If we don't get a VP of research who's willing to come into Ontario, what will happen is that we will take that research team down to where the researchers are.

We definitely have some advantages in Ontario, and companies and individuals are willing to pay a premium to live here, but we won't pay a 200% premium. No matter what we need to do in this province, we also have to be competitive, and Ontario has to fight tooth and nail to get these employment opportunities into the province. We have to be competitive more than just at the corporate rate; we also have to be competitive at the personal rate.

The Chair: Thank you very much, Ms George, for joining us today and bringing your perspective to the committee. We appreciate it very much.

1130

ONTARIO PUBLIC SCHOOL BOARDS' ASSOCIATION

The Chair: We now welcome the Ontario Public School Boards' Association, vice-president Mary Jeffery and associates. I want to bring to your attention that there is generally a vote at noon in the House on Thursday, so our time will be limited by that vote. I believe we will have 30 minutes together. Please identify yourself for Hansard as you begin your presentation.

Ms Mary Jeffery: Yes, I will. I'll introduce the people who are here with me; we will be making a joint presentation. I'm Mary Jeffery, vice-president of the Ontario Public School Boards' Association for the central-east region. Gary Ainsworth is a trustee with the Peterborough County Board of Education and chair of the finance committee for the Ontario Public School Boards' Association. Dusty Papke is a director of education for the Muskoka Board of Education and also sits on the finance committee for the Ontario Public School Boards' Association.

First of all, I'd like to thank you for the opportunity to be here today. We appreciate the time you're taking in trying to develop a process for this province to be taking and a direction for us to be moving in. I would like to comment on what the Ontario Public School Boards' Association is, to put it in a bit of perspective, although I know we have been here before on other occasions. We represent 92 public school boards in the province of Ontario and 1.7 million students. Therefore, I think we can safely say that we speak for public education in the province.

We are concerned about some of the recent announcements that have been made by the government and today we'd like to you briefly about some of these and make some recommendations on where see the future of education heading. We feel the hearings are very essential in the planning process and we hope the comments we have to make today will have some impact on the directions you'll take.

I am going to go briefly through the document. I think you all have a copy. I would like to draw your attention to page 4 and point out a couple of things the association has stood for for a number of years.

We have appeared before you before, as I said. We have, we think, a very simple strategy for managing school board expenditures. We continue to support this approach, and you'll see this in the two points on page 4: an adequate provincial per pupil grant based on an accurate and comprehensive costing of programs and services, sensitive to student needs in all parts of Ontario; and a new legislative framework that gives school boards more flexibility and freedom to implement new ways to deliver services and to facilitate local innovation.

We believe 1997 and 1998 will be a time of chaos for education and perhaps for other areas of the province as well. We think further cost-cutting will be or can be at the expense of Ontario students, and we are very concerned about this.

In some of the statements made recently by the government we have heard comments that only 1.8% was cut from education in 1996. We feel that some of these announcements being made have much misinformation about how our education dollar is being spent. Perhaps I could identify that Premier Harris made that particular statement. We suggest to you that in 1996 the reduction was in fact 7.97% in grants, and if you look at table 1 on page 5, you can get some idea of the impact of these cuts on some of the boards in the province.

We have also heard that for every dollar spent in the classroom, more than 80 cents is spent elsewhere. We believe this is a very narrow view of what the classroom experience is. These particular expenditures do not include libraries, guidance, school principal, secretaries, custodians, heat and light, school buses, or professional support for special needs children. In some of our minds we picture students sitting in the snow, with no desks, no light, no heat, but with a teacher and a blackboard.

We feel these fundamental services are important to education. Public boards have tried to protect the classrooms in the past year, and table 2 on page 7 will show you some areas where school boards have reduced their budgets. You can see in school capital a reduction of 37.5%; instructional supervision, a reduction of 17.4%; school administration, 8.1% less; and so on. In fact, the impact of cuts to education has hit the classroom.

Last year it was necessary for many boards to cut programs like junior kindergarten, adult education, day school programs, instrumental music, noon-hour supervision, gifted and enrichment programs, alternate ed programs and so on. We see that 1997 will continue this trend, as there is a continued reduction in operation expenditures from provincial policy decisions in 1996.

We do not agree with the government when the government says we have mismanaged funds. In fact, the government has set a mill rate increase for boards of education. The provincial government makes this decision, and you can see some information with regard to that on page 6, the third paragraph down, when you set the provincial mill rate for the grant programs.

As well, you will remember that the government has announced some funding for capital expenditures. I would say to you that we believe many of these new buildings, which are needed — and we're pleased that the government recognized they were needed — will not be built, because at the same time this was announced we're also faced with having to deal with the Education Implementation Commission, and we are having some difficulty in trying to finance our new schools and what have you because of the process that has been set in place by Bill 104. While I don't want to talk directly about Bill 104, I do want to mention to you that it has a significant impact on how we can continue to operate as school boards.

We have several recommendations for you. At the front of the document we have provided is a list of our recommendations so you can have a brief look at them. As well, they are identified as you go throughout the document.

One of the recommendations we feel very strongly about is that the provincial government must ensure adequate and equitable support for all students in Ontario. We believe that further cuts to education will have a serious impact on the ability of our public education system to adequately educate all students.

Mr Gary Ainsworth: My name is Gary Ainsworth, trustee with the Peterborough County Board of Education and chair of education finance for the Ontario Public School Boards' Association. I've been asked to address the issues on pages 11 and 12: appropriate regulations, the Education Act and cooperation.

What we have found as school boards is that in order to respond to the needs of the students — many of the regulations and the Education Act itself are antiquated, prescriptive in nature rather than being permissive, and as a result we're not able to meet the needs of the students in innovative and creative ways.

Amendments to the regulations would allow for greater flexibility. In our comments to the government, the association has requested a review of all provincial mandatory legislation, such as school bus safety, other health and safety regulations, fire and building codes and environmental and employment regulations in order to make this legislation more appropriate for meeting student needs. OPSBA makes this request again.

The report of the Ontario School Board Reduction Task Force also suggested that the school board operational expenditures cannot be reduced without some deregulation. Therefore, we are asking today that the recommendations made by the Ontario School Board Reduction Task Force pertaining to provincial mandatory legislation as it impacts on school board operational costs be implemented in order to streamline administration and facilitate cost efficiencies.

1140

The Education Act, in its antiquated form and with its overregulated programs, has been a fragmented and reactionary approach to providing governance of education. The current legislation and regulations often discourage local cost savings. We are requesting that a complete review be made of the Education Act and its regulations in order to make it permissive so we can more adequately meet the needs of the students.

David Crombie's Who Does What panel recommended that the new Municipal Act give municipalities more flexibility to deliver services for taxpayers at a price they can afford. Since school boards are also a form of local governance, we are asking that we should be given the same considerations as municipalities. Therefore, OPSBA urges the government to rewrite the Education Act.

In the area of cooperation, OPSBA recognizes that cost savings may be achieved through reducing duplication and staffing. I am a trustee on the joint committee with our coterminous board, and we often recognize that although cooperation is something we all state verbally, to be able to carry it out has been another thing. It would be very helpful to have mandatory cooperative service delivery of board administrative services, building and school maintenance, and school transportation. OPSBA is offering its assistance to the Education Improvement Commission and the government to develop the guidelines and legislation for mandatory cooperative service delivery among school boards, where physically viable and cost-effective.

Due to the diversity of circumstances, OPSBA does not support mandatory outsourcing with local agencies, the private sector or with municipalities. This must remain an option for school boards, dependent on the viability and cost-effectiveness of the programs.

One example we discussed as we were preparing for this presentation today is that in the areas of Belleville, Peterborough and Muskoka, there is excess capacity in the secondary school system, yet there are new schools being built for the separate school boards. There's a vacant school in Belleville, yet there's an $18-million construction project of a secondary school there. It would be helpful if we could offer that school to the separate school board rather than spending that extra money on additional capital expenditures. It's the same thing in Peterborough where I'm a trustee —

Mr Rollins: It already was offered.

The Chair: That'll come up in the question period, Mr Rollins.

Mr Ainsworth: This is just an example. To encourage cooperation, we recommend that rather than spending additional funds on more school projects, the excess capacity in the public school system be used by our coterminous boards.

Mr Dusty Papke: My name is Dusty Papke. I'm the director of education with the Muskoka board, and I'm also a resource to OPSBA's education finance working group. I want to touch briefly on the issue of the restructuring of the school day and school year.

OPSBA has recommended in the past and continues to recommend that the Education Act and regulations be amended to allow school boards to define the school day and year in accordance with community needs and the educational outcomes of the ministry.

I want to talk first of all about the issue of year-round schooling. In Muskoka, we have implemented what we believe to be the first successful alternative school year. We have three elementary schools that operate on an alternative school year program. They're dual-tracked schools, so we also operate the traditional school year within those schools, but in those three elementary schools, we have approximately 250 students who attend school on close to a year-round basis.

The program has been an overwhelming success. It's entirely voluntary. We weren't sure what the reaction would be initially, but we have waiting lists for those school placements.

It's too early to really expound on the impact on academic achievement for these students, but we intend to conduct longitudinal studies over the next number of years. Our early indications are certainly that reducing that long, 10-week summer break does increase academic achievement.

We are not operating these programs for financial reasons at this point in time, although obviously there are some financial implications, where savings are likely to be garnered in the future. We've done it more in response to some of the demographic needs of our community, which we think is crucial.

There is a body of research that indicates that students are further behind in September when they return to school than they were when they left in June. Part of that, obviously, is getting used to a new teacher and a teacher getting to know those students when they return, but

there's also that long break in the summer where students are out of school.

What we've been able to do with what we call the alternative school year program is reduce that long break. We've lengthened other holidays, so they are attending school the same number of instructional days but spread out over the year. Our initial indications are that academically the students are likely doing better, and we had overwhelming satisfaction from the parents and the communities involved.

It's also meant the availability of a lot of other community resources at times of the year when those resources aren't being stretched by all our schools and other agencies trying to access them. We've been able to utilize that. It's meant more efficient use of technology: We are able to have every student with access to computers during the time when other students are not there, because the holidays are not matched up throughout the year.

It's been terrific for the demographics of our community. As you know, the Muskoka economy is very much based on tourism, and for many of our parents the summer is the time when they are most busy. For those people, they're quite pleased to have the students attending school for a good part of the summer months and their holidays spread throughout the year at different times.

We've been able to do that alternative year process by applying for special dispensation, if you will, through the ministry, but it would be a much simpler process if boards were simply allowed to define the school year.

Similarly, a more flexible school day would allow more creativity in busing schedules, particularly in rural jurisdictions, which most boards in the province are. We bus more than 85% of our students, close to 90% of our students, because it is a rural community. It would certainly allow savings to be made in the transportation area, plus more efficient use of buildings if we could offset some of the time when those buildings are being used.

A combination of year-round schooling with more flexibility in the school day would certainly allow boards and communities to make better use our school facilities and our infrastructure. As you know, for a good portion of the year those buildings are sitting empty, and we think it would allow better use of those. Once again OPSBA is recommending that the act and the regulations be amended to provide boards with the flexibility to do some of these things.

Ms Jeffery: We recognize that there are several other recommendations here. We aren't going to directly touch on those. While we also recognize that Bill 104 will have a significant impact on the way education happens in this province in the next few years, we don't want to talk directly about that either. We just want to recognize that a number of the changes we are recommending will help to facilitate boards as they currently exist in the interim period and the future district boards when we move to district boards, particularly legislation that would be permissive legislation rather than prescriptive legislation, and any type of changes that would allow us to save some money in a format that would help ensure that education dollars get spent in the classroom where they can help children.

To conclude, and I'll be very quick about this, we are concerned about the government's stated intention to save money from education. Your own figures suggest that this can't be done without impacting the classroom, and we as trustees, directors of education etc, don't want to see that happen. We believe all of us here in this room want the best for Ontario's students.

1150

Presently, we have a $13.7 billion expenditure for education. We would hope it's the government's intention to provide an education envelope of at least the $13.7 billion, by reinvesting any savings realized in the education system in a manner that's similar to what we're seeing in the health care system now.

I would like to thank you again for the time you've allowed us. OPSBA will continue to represent all of Ontario's public boards of education and we will continue to work with our partners. Thank you.

The Chair: Thank you very much. We'll start with a two-minute round, but I'd ask for your cooperation, as we'll probably be interrupted towards the end.

Mr Kwinter: I'm interested in your analysis that, notwithstanding that the minister says 80% of every dollar that goes into schooling goes outside the classroom, you're saying it's 4%.

Ms Jeffery: Yes, in essence.

Mr Kwinter: That's a fair discrepancy.

Ms Jeffery: I think the discrepancy is around what we define as classroom support.

Mr Kwinter: You feel that 96% is really attributable to the classroom.

Ms Jeffery: Supports such as librarians and psychologists and people who —

Mr Papke: And heat and light.

Ms Jeffery: I've been reminded about heat and light. These supports are important to education and are directly attributable to the classroom. We have a disagreement around where the education dollars are being spent. Based on the figures the ministry has provided, about 4% of that money goes to administrative costs.

Mr Kwinter: Can I ask about your recommendation of year-round schooling? I assume that doesn't mean the students would be in school for a total year without any break. It would be like a semester system where it would run in the summer or three semesters a year and students would pick two out of three, something like that?

Mr Papke: A number of models have been used throughout North America. What we're using in Muskoka involves lengthening holidays: the traditional Christmas holiday to three weeks instead of two; March break — well, it's not actually at March break, but there is another three-week break. Our students do have four weeks off in the summer during July. It squeezes all those breaks, so in essence they go year-round but it's not necessarily an even break.

There are a number of other models out there where they spend X number of weeks in, X number of weeks off, that is more like an equal semester system. Either model, I believe, or any of the models, would provide flexibility for more use of our school buildings.

Mr Martin: It goes without saying that all of us believe education is really important, actually essential, to any future we're going to have. You make some recommendations here for some changes that would be helpful, but given the cuts that have already happened and the projected need for further cuts, is it realistic to think any of this would really get us to where this government wants without really affecting classroom education and the product at the end of the day: students who are learned and able to participate in society?

Ms Jeffery: Obviously, we're very concerned. We have lived through the cuts we've had so far and we feel they have significantly impacted education to this point, so we have some very real concerns about where we're going to be and what will be available for children.

Mr Martin: Is there a breakwater mark for you, and have we already gone beyond that, in terms of negative impact?

Ms Jeffery: I think there are circumstances where, yes, we have gone beyond it. I don't know that that's true everywhere, but we certainly have some significant problems when programs are cut and you start to get an inequity in the province as to who gets to have what. For instance, some boards offer JK still; others do not. I think we have a problem, and we need to deal with that.

Mrs Lillian Ross (Hamilton West): I found your presentation interesting, particularly the discussion on the year-round program, but before I get into that I want to ask you a question. Can you explain to me why, if enrolment has only increased by about 16%, education spending has increased dramatically more than enrolment? It's been by as much as 82%, and the increase in taxes has been 120%.

Mr Papke: The figure announced by the minister was an 82% spending increase since 1985. I believe that figure's accurate. I don't think anyone's going to try to deny that. But what's not being presented as well is, where does that 82% come from? If you take the 16% enrolment off the top of that, you're down to 66%, and then I would ask some questions around that.

The years being used were 1985 to 1996, an 11-year period, a very significant period. The implementation of the special ed legislation came in in 1985, which, by the way, I wholeheartedly support. However, what percentage of that 66% is due to the costs of implementing the special education programs? I don't have those figures — I'm leaving that question out there — but I would guess it's close to 30% The implementation of Bill 30 was in 1987, which was full funding for separate schools. I'm not arguing against that either, but we have to recognize that that was a significant cost to education in this province, a large cost. What was the cost of employment equity programs? I'm not arguing against employment equity programs, but they cost school boards millions of dollars, as did pay equity programs, the employer health tax.

If you go back to 1985 and look at the average inflation rate — it's been fairly flat in the last couple of years, but if you go back to 1985 it averages out to 7% a year.

The cost to school boards should probably be calculated at significantly higher than the 82% increase; I would suggest that more than 82% were costs that school boards had no control over because those were imposed costs. As I said, full funding for separate schools was a cost to the education system. The employment equity and special ed legislation — it all came with a cost.

I recognize, now that we're in times when we're looking for ways to cut back those costs, those are programs that can't be taken out. We can't simply turn back the clock and say, "Spending's gotten away from us." I don't believe that's the case.

Mrs Ross: I'm not suggesting that we turn back the clock. What I am suggesting, though, is that perhaps over that period of 10 or 11 years, there should have been greater control. There should have been an attempt to look at how the spending was going on, perhaps a look at programs, classroom sizes and those sorts of things, as you progressed. An 82% increase with only a 16% increase in enrolment is such a dramatic increase that there should have been more control on those expenditures.

But let me talk to you about your year-long program. I would have thought a year-long program — I'm a little confused by it, I guess, because if students are attending school for a full year, as opposed to the 10 months or nine months they attend, I don't understand how you're getting greater efficiencies. Could you explain that to me? If you're using the school for a longer period of time to graduate the same number of students, how are you getting greater efficiencies?

Mr Papke: We didn't enter into our particular program to try and get greater efficiency. As I said earlier, it wasn't done for cost savings. I believe, though, that the potential is there to do that. For instance, if we can utilize our schools year-round there will always be some students not attending. Some of this was referred to by Mr Kwinter. There will be some students attending, some not attending, but then you have less need for the capital cost for the new buildings, for the expansions. You can house more students in those facilities because they're not all there at the same time and you don't have the long periods when your buildings are sitting empty.

The Chair: Thank you very much. I appreciate your travelling the distances you have today to present before the committee. Education is certainly a very emotional subject in Ontario today, and we appreciate your presentation very much.

I see we're summing up in the House, so we have time to make it. The committee will stand in recess until 3:30 this afternoon. Thank you very much.

The committee recessed from 1200 to 1531.

SOCIAL PLANNING COUNCIL OF METROPOLITAN TORONTO

The Chair: We're pleased to welcome Mr Mitchell, who is with the Social Planning Council of Metropolitan Toronto. Mr Mitchell, we'll have 30 minutes together. If you would like to make a presentation, we will follow up with questions afterwards. Your questions will commence with the NDP, given their arrival. I'm sure they'll be here. Thank you for joining us, sir.

Mr Andy Mitchell: I would like to start by thanking the committee for giving us this opportunity to address you today. Some of you may be familiar with the organization, others not. The social planning council is a 50-year-old or more, independent, non-profit organization dedicated to social policy analysis and public education. Over the past half century or so our commitment has been to provide an independent community voice on social policy; to support citizen participation in social policy development; to emphasize and recognize the link between economic participation and social wellbeing; to affirm an active and positive role for government, working with the market and voluntary sectors for economic and social wellbeing; and to advocate for change to policies to improve the living conditions and opportunities of the poorest and most vulnerable members of the community.

Our comments today are directed largely towards the downloading announcements recently made by the provincial government during the so-called mega-week. Our presentation is based on the policy statement adopted by the board of directors of the social planning council on January 29, 1997, and is further an outgrowth of our historic commitments, which I will address later, our social vision work for the 21st century and our program priorities for 1997 to 1999, identified over the course of the full period.

It is our perspective that the downloading of responsibility for key social programs is the principal policy dynamic in the recent series of provincial government announcements. It reflects a primary and driving commitment to the offloading of responsibilities from more senior to junior levels of government, and also on to local communities and charities.

Partly, we understand, this is a provincial response to cuts in federal-provincial transfers which began in 1990 with the famous cap on CAP and was subsequently continued with the elimination of the Canada assistance plan and the rolling together of federal-provincial transfers into a single block fund, namely, the Canada health and social transfer, or CHST as it's known, with substantially less money involved in the block fund. But the chief motivation for these announcements, we feel, in the most recent round, is the need to find revenue to fund the promise of income tax cuts.

In this so-called disentanglement exercise the province has offloaded expensive and volatile expenditure items such as welfare as well as programs projected to grow in the future, such as long-term care. In exchange they pick up the relatively stable and predictable costs of education. But on top of this, the most recent figures indicate that this swap will result in an additional $900 million or more in costs to the municipalities across Ontario.

These figures apply to the situation as it stands today. We feel it's important to point out that in a future recession welfare costs will go up substantially, undoubtedly putting numerous municipalities in financial crisis. Metropolitan Toronto, for example, calculated that between 1989 and 1994 their social assistance costs went up by $80 million under the old 80-20 cost-sharing arrangements. Under the new 50-50 cost-sharing arrangements the increase would be $200 million if welfare caseloads were at the peak recessionary levels, and that was just on the general welfare component, ignoring for a moment the family benefits aspect that they will also be picking up. Moreover, ongoing cuts to unemployment insurance, now renamed employment insurance, mean that future recessions will have a greater impact on provincial social assistance expenditures, and therefore municipal social assistance expenditures, than in past recessions.

It is our view that downloading responsibilities in this way inevitably will promote a minimalist government approach and favour the relatively unfettered private market. We feel the downloading of social programs to the municipalities represents a move away from the traditional redistributive role of senior levels of government. Municipalities, with revenue sources limited to the property tax base and user fees, cannot hope to perform the redistributive function effectively, even if they want to. They are more likely to succumb to pressure to contract out higher-cost services to commercial operators or to press for cuts in social programs.

Downloading, then, threatens to further divide and fragment society. In the area of social services downloading encourages commercial enterprise to target profitable areas previously administered by the public sector and crowd out voluntary sector programs that previously received public support altogether. To take just one example, in New York state there is a company known as America Works, which is a private firm that provides job placement programs for welfare recipients to the state on a fee-for-performance basis, not unlike the fee-for-performance placement component of our Ontario Works plan. America Works, though, maintains its profitability by refusing to serve high-need clients and serving only those with high skills and presenting few barriers to employment.

Downloading policies will inevitably shift responsibility from the public realm, in which the whole society shares costs and benefits to be as broadly inclusive as possible, on to the private domain of individuals, families and communities, in which self-reliance is the paramount consideration for success and social support for the poor is left to the voluntary spirit and the goodwill of the community. This shift promises to create a more divided society with the privileged retreating to protective gated communities while middle- and lower-income groups struggle under onerous property tax burdens to maintain inadequate public services. This is not idle speculation; this is history; this is how it happened in the United States.

It is our position that it is inappropriate to finance major social programs at the municipal level. Municipalities, as we said earlier, have only one main source of revenue, the property tax base. As a resolution adopted on January 31 by the Association of Municipalities of Ontario stated: Property taxes should be used to fund programs and services that are predictable, stable, and for which municipalities can be directly accountable to their residents. Provinces and the federal government have access to more revenue sources, of which income taxes are the largest. Downloading to the municipalities therefore implies shifting the financing of social programs

from income taxes to property taxes. Property taxes are regressive, while income taxes are progressive. Since redistribution is an important goal of social programs, shifting the financing to the municipalities lessens the redistributive impacts of these programs, blunting therefore their primary goal.

In a future recession municipalities will be faced with the choice of dramatically increasing property taxes, or draconian cuts in services, at a time when they are needed most. Many, as we said earlier, will be put in financial crisis. In effect, the province will have exported its cutting agenda and imposed it elsewhere. Again, this is not something that we have no experience with. This is what happened to municipalities in the Depression.

We are not satisfied with the $700-million fund which has been proposed to help municipalities cope with the rise in social assistance expenditures due to a recession. It still puts the primary responsibility on property taxes to meet social assistance costs. We don't yet know what conditions will be attached to the fund, what economic conditions will have to exist, and whether municipal finances will already have to be in crisis before any relief is provided.

It's worth pointing out that this downloading does not in fact represent a 50-50 cost-sharing arrangement. The provincial government, of course, receives transfers from the federal government for social programs under the CHST. A large part of the province's 50% share therefore is actually coming from the federal government. This represents a complete inversion of cost-sharing arrangements which have governed the financing of welfare and social services in Ontario for 30 years.

The logical consequence of the proposed cost-sharing formula is that municipalities will seek greater say in the setting of social policy and standards for social programs. As was widely reported this morning this is already happening. Already municipal officials are predicting that it will result in pressures to reduce benefits, or at least this guarantees that they will never increase. In a recession, faced with a choice between increasing property taxes and cutting social assistance, social assistance and other programs for the poor will lose every time.

1540

While the Minister of Community and Social Services insists that the province will set and maintain rates, those rates have never been given the protection of legislation. They are set by regulation alone and they can be changed overnight with no process or notice.

In Metro Toronto we of course recognize that there is a disproportionate share of high-need populations such as social assistance recipients and the elderly, compared with the municipalities that surround it. Maintaining programs and services in Metro Toronto will mean dramatically higher property and business tax increases in Metro than in the surrounding regions.

The suggestion of pooling social program costs with surrounding municipalities may address the risk of escalating taxes in the core leading to the flight of businesses and residents and a hollowing out, if you will, of Metro Toronto, assuming even that the surrounding regions accepted such an arrangement. It will not, however, address the basic issue of principle: that social programs should not be funded from the property tax base.

Just as a quick calculation of the net impact of downloading, the move to AVA plus the income tax cuts implemented to date reveals in Metro Toronto that a middle-income household, with say an income of $50,000, will pay about the same in increased property taxes as they are projected to receive in reduced income taxes. But, on the other hand, if you look at an individual with a high income, say over $100,000, they will get back more in reduced income taxes than they are projected to have to pay in increased property taxes, and this doesn't even include the most recent revelations about the additional $900 million in costs that municipalities are going to have to face as a result of previously unrevealed costs.

There is no support that we know of from any public groups for this downloading exercise. No such swap of responsibilities has ever been recommended by any task force or commission, including the Fair Tax Commission, the Golden task force on the GTA and the provincial government's own Who Does What panel. Groups as diverse as the board of trade, the United Way, the Association of Municipalities of Ontario, Metro Toronto, the mayors in the GTA have all condemned this exercise, for identical reasons.

This downloading is being undertaken to make room for the promised income tax cut. The reality is that for most taxpayers every dollar received in income tax reductions will simply be traded for higher property taxes or a dramatic deterioration in social programs, with terrible consequences for the quality of life in Ontario.

And there may be more to come. The finance minister's recent announcements that revenues were ahead of projections merely reflect adjustments to the personal income tax revenues of 1995 and may not continue given the current weakness in the economy. Job growth is only at about half the rate needed to meet the commitment to create 725,000 new jobs in the term of this government, and another recession may be looming in the near future because GDP growth is trending down. At least one prominent economist is projecting another recession as soon as a year from now.

Therefore, in conclusion, we feel that downloading is a deeply flawed policy for several reasons: It will widen the disparities and inequalities in society with particular hardships being imposed on our poorest and most vulnerable members; downloading policies give primacy to markets forces rather than seeking to link and integrate economic and social policy for the benefit of all citizens; and the government's arbitrary and fast-track approach to implementing its proposals denies adequate opportunity for public input and debate. These follow directly from our historic commitment at the social planning council to point out these flaws.

In terms of the five key principles of the SPC's social vision statement, the downloading policies of the provincial government will heighten insecurity within the population, especially among the poor and vulnerable; promote greater individualism and conflict rather than interdependence in social relations, given the emphasis on the marketplace over other community activities; increase inequity by reducing government commitment to redistributing wealth within the community; devalue participa-

tion that is not market-related, primarily by weakening the role and strength of the voluntary sector and its traditional partnership relationship with government; and neglect altogether public supports necessary to enable diversity of the community's peoples to make their contribution.

I thank you for my opportunity to speak.

The Chair: Thank you very much, Mr Mitchell. We will begin with a five-minute round of questions.

Ms Frances Lankin (Beaches-Woodbine): Five minutes each?

The Chair: Five minutes each, yes.

Ms Lankin: Thank you for being here today and for your presentation. There were a couple of areas in particular you touched on that I wanted to explore with you, first of all the share of government financing of various social programs. You talked about the problems in terms of the restriction on funding from the federal government, with the cap on CAP and then the move to the Canada health and social transfer.

But it strikes me that with the provincial government continuing this process of downloading, we've seen a dramatic shift in who supports what burden or share of these programs. Where in the past, and I know it changed a little bit after the cap on CAP, you would see 50% of the funds coming from the federal government, 30% from the provincial government and 20% from municipalities, we now see an inversion where it looks like the federal government is going to be funding about 30% of these costs, the provincial government 20% and the municipalities 50%. It differs a little bit between programs, whether it's social assistance or child care, depending on how expenses had grown in the past and how CAP had affected them.

I wonder what your view of that is, the municipalities taking on the largest role as the funder. I guess it touches on another point you raised about the basic principle that those who pay have the say, and what pressures will occur in the system as a result of that for the municipalities to have more and more control over the definition of those basic social programs. I guess I worry about the growing gap between communities as a result of that.

Could you comment on those general areas?

Mr Mitchell: There are a number of things I've already identified. I fear the choices municipalities will make should another recession hit. They will undoubtedly demand even greater levels of say because they will be the single largest payer in this system. While in a recession the senior levels of government typically take the lead role in relieving these costs, and there are all kinds of good reasons why those funding arrangements evolve, but they'll have thrown up their hands and said: "We're out of here. It's not up to us. It's up to you, municipalities."

Municipalities of course have got a very inflexible source of revenue to deal with. They don't have the option of taxing from different bases. They have very few financing options available to them, and so I think there'll be pressure probably not just to cut rates but maybe even to allow municipalities to vary rates. It's hard to know exactly just how fragmented the system will be.

People have asked me, just speculatively, what would happen to a municipality that refused to deliver welfare at all? My response is: "It's a mandated program. They have to deliver it." They just said, "What would the penalty be if they didn't?" I couldn't answer that question. It's hard to know just how out of control things could get.

Ms Lankin: Within a specific program area, and I'll take child care as an example, one of the concerns that I've had — and I've raised this with the minister and have not been able to get an answer — is that while in 1998, when this program becomes jointly funded on a 50-50 basis with municipalities, the minister has committed to making it a mandated program, a mandatory program, there are no mechanisms in place in 1997, in the current year of budget-setting, to protect the existing level of child care investment or the number of spaces or the fact that they're in regulated care. I'm hearing already about municipalities looking at options of what they can get rid of before they accept the burden of payment in 1998. Do you have any thoughts on what's happening across the province in that regard?

Mr Mitchell: Clearly, anything that's discretionary at this point is at risk because of the need to find ways to meet these additional cost responsibilities. That's one program, but there are many others. Anything that's special assistance or supplementary aid under social assistance and currently discretionary for the municipalities is also at risk. We're talking about supports for disabled people, like wheelchairs and oxygen. There are all kinds of things. You could go on and on. Clearly, those things are at risk.

1550

Ms Bassett: Thank you very much for your presentation. I think it's important that we make sure we don't scare people out there with all sorts of predictions of what may or may not happen. What you have to realize is that the province can't pay for everything. We have taken the responsibility of paying for $5.4 billion of education costs; that's come off the property tax municipally. Now we are asking the municipalities to pick up on paying that difference.

Adding to that all the social programs etc, we realize that cities such as Toronto, major centres, are going to have higher costs, so we've set aside moneys, a $700-million program in case of emergencies, that the municipalities will be able to buy into, and that will grow. We also have a $1-billion fund, of which $340 million or something is new money, because some of the $1-billion fund is already there. The AMO people have agreed that they will have a formula or are looking at a formula they can buy into. I think it's something we can work out.

You talk about social programs. We've always it done this way, although everybody, as Ms Lankin has pointed out, has been chipping in to social programs and who pays what. Education is a social program too. What would you do to fill the difference of the $5.4 billion that the municipalities have given up?

Mr Mitchell: I'm not arguing that the province should just pick everything up and that's some kind of magical solution. Of course, if the province were to pick up a burden of the magnitude of the education system, then

there's a huge burden that's being relieved at the municipal level. I'm sure there are all kinds of deals that could be made about working with that revenue to finance education in a way that's equitable for municipalities across Ontario. The funding from municipality to municipality can give rise to inequities currently.

There are many answers and my fear is that in our haste to do this we're not considering all the answers that are possible. No deal or arrangement that the province can make around contingency funds for municipalities or whatever will ever satisfy the basic principle that these programs — regardless of how education should be funded and paid for, programs whose fundamental focus is redistribution cannot be funded from the property tax. It simply undermines their whole purpose.

Mr Hudak: Thank you for your presentation. I just wanted to point a few things out that I thought curious. I'm trying to figure out whether there are suggestions in here for improving the social welfare in Ontario, which this committee is interested in hearing and reporting back to the minister, or whether this is more of a political document, suggesting that the province go back to the way things were in 1990 through 1995 instead of trying to make changes from that status quo.

Let me point a few things out. For example, taking education off the property tax: You said that's a stable way of funding, and you also talk about some concern about property taxpayers and regressive taxes. If anything was for sure, it was a hike in property taxes, which meant higher taxes every year for senior citizens. It is a regressive tax, so certainly taking education off the property tax makes a tremendous deal of sense for social welfare, and especially for low-income individuals and seniors.

You seem to reject AVA, but it seems to me sensible that if somebody's living in a small home in Mississauga and paying a heck of a lot more property tax than somebody living in a mansion in downtown Toronto, social welfare is going to be better off if the taxes on property reflected the value of that property.

You're worried about the voluntary sector being crowded out. Taking more services into the provincial government, centralizing services over the past 10 or 20 years, I think you have seen the voluntary sector crowded out. I think the more responsibility you put at the municipal level, the more apt people would be in that closest level of government — it would make a lot of sense, I think, to see the volunteerism increase when services go to the local level.

In terms of the workfare programs and such, trying to move people off social assistance, off dependency, getting them back into the workforce, getting them into training programs and getting them active in society again, getting those mechanisms moving at the municipal level as opposed to Queen's Park or Toronto makes a tremendous deal of sense.

What are your suggestions, or is this just more of a political document than something to help out this committee?

Mr Mitchell: It's not just a political document; it's a warning of some serious consequences to follow from policies that are rushing ahead pell-mell. You've raised a lot of issues in your comments and I can barely get down all of them, so I'll probably forget some and you can feel free to remind me of them.

I don't reject AVA out of hand. My point about raising AVA was simply to point out that at this time, put in with the other things that are happening, here are the consequences for typical households in Metropolitan Toronto. I think everybody recognizes that the property tax system in Metropolitan Toronto is an anachronism and problematic, but I don't have magical answers to address that. My observation was simply, look what happens when it's thrown into the mix of all these things.

In terms of the voluntary sector being crowded out by absorbing it into government, no, I think that's a misunderstanding of how the partnership between government and the voluntary sector works. If you look at voluntary sector agencies and non-profit organizations of many kinds, they are funded and operate in a partnership arrangement with government where funding is derived from many sources, but contributions from different levels of government have always been a very significant and central part of revenue for these organizations. The withdrawal of government support at the same time as some more lucrative services are likely to be put out to the private sector will result in crowding out. The voluntary sector can only survive and thrive where it's in a stable and supportive environment, and that's not what we've got right now.

I was trying to get down what you were saying about the closest level of government to people. I suspect you were moving towards some kind of subsidiarity argument about which level of government should be providing what kind of services, which is a separate argument, although related to a funding argument. Metropolitan Toronto is arguably a level of government closer to people and maybe a reasonable level of government to deliver welfare services, as it does now, but funding is a separate issue, I would say. The same argument could probably be applied to other things as well.

That's all I've got down. I don't know if there were other —

The Chair: Thank you very much. We will move to the official opposition.

Mr Kwinter: Thank you very much, Mr Mitchell. The Social Planning Council of Metropolitan Toronto is really a policy analysis group and an educational group. You don't have any agencies that deliver services or anything else; you're strictly a policy commenting group. Is that true?

Mr Mitchell: That's correct.

Mr Kwinter: In your analysis — and I'm sure you must be watching what's happening — there seem to be two issues. One is the merger of the seven governments to make one, and I would say the jury is out as to what people think about that. Some are in favour, some are opposed, depending on who you talk to.

In your observations, have you found anybody who is supporting the downloading on to the property tax level of social services, long-term care and the other areas the government is planning? Is there anybody out there supporting that?

Mr Mitchell: Not to my knowledge.

Mr Kwinter: I would challenge the government to find one single anybody who says that's a great idea,

other than the government caucus. Doesn't it seem bizarre that on the amalgamation issue there are all kinds of people out there who think it's a great thing? Quite frankly, if I could be shown that there are economies, I'd support it. Why not, if it's a good thing? As I say, it's mixed; it depends on who you talk to. I haven't found one single entity — not just a person, nobody — other than the Conservative caucus and the Conservative government, that supports it.

I raised an issue in the House the other day. The Economist, which is arguably the most influential economic publication in the world, in its comment on what was happening here said — and this wasn't what someone else said; this is what they said — "It is plain that as the population grows, social costs are going to go up, educational costs are going to go down." This was their analysis. You can't write them off as a bunch of wackos. This is the Economist, which normally would be very supportive of what this government is doing.

As a matter of fact, if you take a look at the editorial in the issue that came out today, the cover story is about ministers going abroad to sell their things and how they're opposed to it. They're saying, "This is what governments should do." I have to say, with deference to my friends on the other side of this room, many of the things they're advocating are exactly the things this government is advocating. You have to understand that they are not your normal sorts of people who would be critical. They are generally supportive of many of the things this government is attempting to do. But they say absolutely that it makes no sense. David Crombie, who was appointed by this government to advise them on this, said that it makes no sense, that it's ludicrous.

1600

There is no one who supports it, and yet the government stands up and it says: "No, educational costs are going to go up; welfare costs are going to come down; it's a wash. And if it isn't a wash and there are some little adjustments, we will provide the funding."

What hasn't happened is a realization that any objective observer who does any kind of analysis says it makes no sense. There is no way it can make sense. You can try it any way you want, unless you're just going to be blindly saying, "Trust me, it works." It's not going to work. You don't have to be any kind of economic guru to say that. It doesn't make any sense.

My question to you is: In your experience, in taking a look at social policy, do you have an idea of what the implications are going to be if this in fact goes ahead?

Mr Mitchell: My only guide is what's happened in other jurisdictions and at other points in our own history and I think I alluded to both of those briefly in my presentation. American cities have gone through this. We saw what happened to New York city in the 1970s. We've seen what happened to Minneapolis-St Paul and many other cities where you see this hollowing out of the downtown core and this complete disruption of urban economies. In some places where they're trying to do things to address this, they're barely beginning to recover.

Our own history is full of this. If you read the history of the Depression in Ontario, there is what happened to municipalities, which at that time bore the chief responsibility for social assistance, for example. Many were on the verge of bankruptcy. The history is full of this whole story. This is exactly what caused senior levels of government to intervene.

Another recession will come in Ontario and those costs are going to go up. Long-term care is demographically set to go up. We're set to see municipal finances thrown into chaos. I've said it two or three times today: The funds that are proposed are not an answer to this problem.

The Chair: Thank you very much for coming in and making your presentation to us, Mr Mitchell. We appreciate your input.

COUNCIL OF ONTARIO CONSTRUCTION ASSOCIATIONS

The Chair: We now welcome the Council of Ontario Construction Associations, Mr David Surplis. It's good to see you. Thank you very much for joining us.

Dr David Surplis: My name is David Surplis and I'm president of the Council of Ontario Construction Associations. With me today is David Frame, our executive vice-president. As I note in the things, we cover all knowledge. He knows all that can be known and I know the rest. I'll run briefly through our remarks here, and David certainly has a wealth of information to impart to you by way of answering questions, so we'll try to get to that.

I should point out that we represent about 50 construction associations all over the province: the local mixed ones, the specific trade ones, general contractors, fencing, road building, you name it. There are about 9,000 contractors providing employment to about 210,000 workers in this province, so we're an important part of the economy of Ontario.

One thing we want to point out, and it's kind of ironic — we did so last year and we continue to do it — is we want everybody to understand there are two parts to the construction industry, if you look at them. Number one is residential, people who build homes, and the other is everything else. The Ontario home builders represent the people who build homes and we represent everything else.

However, everybody we encounter, including MPPs and cabinet ministers, when they think of the word "construction," thinks of home building. So when somebody phones up and says: "How's the construction industry doing?" we say, "Terrible, thank you." They say: "What? I just saw all those figures. Everything's booming. There's housing going up all over the place." Well, that's fine, but that doesn't help our sector, which is everything else, as we call it.

As I say, that might seem like a silly distinction, but believe me, it's really important to our members, and we'll get to some of the figures in a minute.

I alluded to the boom that's going on in residential construction. It certainly looks that way and to that we say great, hurray for all our colleagues on that side of the industry. But we want to point out, as graphically and specifically as we can, that the non-residential sector in the economy of Ontario is in dreadful shape, and has been for seven years.

The revitalization of the Ontario economy that we see in so many sectors today just isn't being realized in our sector. The number of contracts our companies have to bid on is still dwindling. The workforce is dwindling. We're losing companies, we're losing contractors, we're losing workers. It isn't a happy scene.

Figures published just last week by CanaData for 1996 show that the value of non-residential construction in Toronto — just in the GTA — dropped 29% from 1995's levels to $956 million from the $1.4 billion it had been in 1995.

In terms of our workforce — again these are Toronto figures because they're the only ones we were able to get for this presentation — and the historical average for labourers and carpenters, which are the main trades that are hired directly by general contractors, the hours they put in last year totalled three million. In 1989 at the peak of the boom they were doing 12 million. Historically, from the time we started keeping those records, about 1974 to the present, it's about six million. So we're at one half our historical capacity and a quarter of our peak capacity.

A couple of figures in here for your interest: In 1990 construction employment — this is all across Ontario — was 324,000; at the end of 1994 it was 266,000; at the end of 1995 it was 263,000. We don't have the full figures in for 1996, but it doesn't look like we have increased very much at all.

Another disturbing factor in terms of the economy of Ontario is there were 394,000 people in 1989 who claimed to be in construction. That has dwindled now to 300,000 or less. In other words, we've lost almost 100,000 workers in Ontario since 1989-90.

There are very serious and dramatic problems affecting a very large and usually very dynamic part of Ontario's economy and we want you to know about them. We think, and it's something perhaps others could look into at another time, that this loss of regular — if we can call them that — jobs has led to or contributed a lot to a huge increase in the underground economy, the amount of work that isn't tracked, isn't taxed etc, and I'm sure contributes to some headaches for Mr Eves, among others.

As a matter of record, COCA is in favour of the direction the government is going, getting the deficit and debt under control. We've supported that position for years. But one of the things we've had to grapple with is the fact that the war on deficit financing has also brought an end to counter-cyclical financing.

During the downturn in the commercial sector in the 1980s Mr Davis's government increased its capital spending by 48%, and it sort of balanced off and we didn't lose all that many workers and there wasn't so much disruption in the industry. But if that isn't possible today and you don't have enough money to do all the things people want done, and we surely recognize that, we also suggest that counter-cyclical financing can be achieved in other ways. There are ways to enable the private sector to take up the slack, and we'll be talking about a couple of those in a second.

While all the indicators are down for a very important part of the industry and the economy, there are some potentially hopeful signs.

1610

When the Minister of Municipal Affairs and Housing originally announced his intentions about rent control, about a year and a half ago, and when the government announced it was getting out of the public housing business, we had very high hopes for a resurgence in the building of apartments. That hasn't happened. In 1996 multi-unit housing starts dropped 45% from the 1995 levels and there isn't much on the horizon.

We look around for potential: Where can the private sector spend some money? Where can you help them spend some money? There is literally billions of dollars' worth of work to be done on rehabilitating apartments and multi-unit dwellings in Ontario. We've been pointing that out for years. There is literally billions of dollars' worth of work to be done in rehabilitating and improving the infrastructure, particularly the water and sewer infrastructure for Ontario. We wanted to point that out very clearly to you, that there are some opportunities and we just need some help to get there.

The problem with rent control — we don't want to argue rent control of course, but we just wanted to point out to you how sensitive our industry is to political issues and political answers to problems. As you know, from the 1950s on, the graph charting apartment building in Ontario just went up and up until 1975 when, in response to a threat from Mr Lewis, Mr Davis announced rent controls and that graph just crashed. No more apartments were built in the private sector — well, virtually none — and they aren't to this day. They simply aren't built.

I was sitting in this very room when they convened a committee in 1977 to assess what had happened to the apartment building industry. They asked everybody — Greenwin and all the big builders — "Will you build in Ontario again?" The answer was no, and they didn't and they aren't; they still haven't. We need some help in that area to get people investing in that market.

We know the money's out there, but it's just not happening. The investors tell us they're looking for a positive cash flow from any project, but moreover they're looking for a positive cash flow that won't be abruptly altered with a change in government. Nobody can ensure against that, but it's that threat that's keeping them out of the market, so unfortunately we're not getting much work in that area.

Our contractors have parallel concerns about things that are happening today. Taking roads for an example, it's fine to pass on responsibility for roads to other levels of government, but our members want to make sure that the funds that used to be spent on roads by the province will continue to be spent on roads by the municipalities and regions in other areas. I think that's a legitimate concern. One of the contractors mentioned to me the other day that they have some concerns about leaving decisions about roadbuilding to councils where one or two stirring speeches can sway a vote and move a whole allocation from roads to something else.

The reality is that keeping all roads in top condition benefits the Ontario economy. With so much trade transported in trucks, decisions on where to locate factories and warehouses can change dramatically depending on the state of the roads. In this regard we have long sug-

gested that the revenue generated by highway traffic and gasoline taxes and so on should be dedicated to road-building and maintenance. We're very supportive of the reintroduction of the federal-provincial infrastructure program and we're delighted that Mr Eves seems willing to participate, but again we would suggest that a program like that be ongoing and not just ad hoc.

In another area, the Ontario Sewer and Watermain Construction Association, which is part of COCA, has been attempting for years to impress on governments the absolute necessity of upgrading Ontario's seriously deteriorating water and sewage infrastructure. We hoped the report of the Provincial Auditor a couple of years ago would help that, but we haven't seen much action.

We want the committee to be aware of the real need that has been expressed for a transition program to follow the end of the municipal assistance program, MAP. We need to ensure that municipalities have sustainable financing for their infrastructure and this could be done, we suggest, by mandating reserve accounts to be kept by the municipalities and by publishing guidelines as to appropriate water rates according to the size of the municipality and so on. We would also suggest that municipalities should have a business plan in place for infrastructure before a government allocates any block funding or grants.

That would help, and of course the Ontario Sewer and Watermain Construction Association has for years been advocating a movement towards full-cost recovery for water. We pay full cost for everything else — gas, cable, television, anything else that comes into the house. We're not advocating we jump immediately to full cost in those communities that don't have it, but across Ontario, for instance, it costs about $850 to supply fresh water to a house and the average cost to the ratepayer is around $350. It's being subsidized to that tune. That could help Ontario or whoever is going to be making up that shortfall to the tune of about $250 million to $450 million a year.

We've lost a lot of resources. We are losing a lot of resources. Construction companies have been disappearing, names that you probably all remember: Milne and Nicholls, they're gone; Mollenhauer's gone; Cape is gone. For Mr Kwinter in particular, what could be more synonymous of commercial construction in Ontario than the name Ellis-Don? But fully 70% of Ellis-Don's business is done outside of Ontario and is growing. They are having less and less success getting work in Ontario. PCL, the other giant in the area, has indicated exactly the same thing, that they probably will have to cut back on their presence in Ontario. There's just nothing to do here in Ontario. We find that's bad.

On a brighter note, we're pleased to have begun discussions with the Ministry of Finance about public-private partnerships. There's quite an interest shown there. We hope we can help them with the expertise in our committee and with the public-private — what's it called? — Donald Macdonald's organization, at any rate. We think a lot can come out of that.

Private-public partnerships: If you're going to suggest and promote them, and I hope Mr Eves and the rest of the government will, we've got a few suggestions just off the top. So many of the ones that have been undertaken now, particularly by municipal governments, have really just been fishing expeditions. Companies have spent a lot of money putting together proposals only to find out that the government decides, "We're not going to do it that way after all." We're suggesting that any kind of private-public partnership be on a pre-qualified basis and 1% of the cost of the project be set aside to recompense the losing bidders, which has been done in a couple of instances. It helps; you get better work that way and also you can attract bidders.

Last year, we suggested to this committee that you recommend the establishment of a permanent panel of public and private sector leaders to make recommendations to the government for stimulation of capital development, and we repeat that suggestion this year.

We anticipate that Mr Sampson will be creating an advisory group concerning privatization, and one or more of our contractor experts could assist such a panel greatly.

In conclusion, what we're saying is that our industry is not at all healthy. We would like to work with the government, the committees, the ministries, any and all of you, in partnership to help restore Ontario's second-largest industry, behind retail, to vibrancy and health. We don't want handouts and we certainly don't have all the answers, but we firmly believe in cooperation and innovation.

I would close by saying that the contractors of COCA and our workers, and it's very much a joint effort in construction, are here to assist you. With that, perhaps we could get some dialogue instead of monologue.

1620

Mr Jim Brown: Thanks. Good presentation. Are you aware that Ontario motorists pay — I guess you are aware — $2 billion in gas tax every year to the feds for roads?

Dr Surplis: Yes.

Mr Jim Brown: You don't get it and we don't get it.

Dr Surplis: That's right.

Mr Jim Brown: We both could use it.

Dr Surplis: Let's all go together.

Mr Jim Brown: Yes. Have you made representations?

Dr Surplis: The Canadian Construction Association has, yes.

Mr Jim Brown: You're hopeful?

Dr Surplis: It would help; it really would.

Mr Jim Brown: You're really running into deaf ears there. They want to keep the money.

Dr Surplis: That's right. Most governments are loath to dedicate funds.

Mr Jim Brown: Even though they take it for a dedicated purpose, they don't want to give it up.

Dr Surplis: Right.

Mr Spina: Thank you, Mr Surplis. This government has done a few things, and I think you can appreciate some of the changes we've done, like streamlining the building code, simplifying some of the planning approval processes, changing the Development Charges Act particularly, which is what hits commercial on a greater scale than residential construction. I understand your position that we ought to be looking at greater areas

where we could try to give your industry some incentive, but we are trying to do some of the things.

I guess your complaint about the lack of multiple-dwelling housing units, for example, or apartment buildings, which are considered commercial types of project, really tends to focus more in Toronto. I'm seeing that you're looking at that in Metro. I can fully understand that, because there was a vastly unfair system of property assessment in Metro and in Ontario, apartment buildings being assessed as commercial properties as opposed to multiple-dwelling residences, and the development charges attached to that. I think those are some things that can be addressed.

But under this exchange that we are in the process of trying to implement, of removing the education taxes and transferring some of the responsibilities to the municipalities, we're trying to save some money in that regard and also simplify the process so that the province doesn't clutter it, but I understand your concern about the imbalance from community to community.

The other side of it is the property assessment issue and the equality that we need to have across this province, because as you know, one of the reasons industry was chased out of Toronto was the high assessment rate of commercial-industrial property. No wonder they migrated to Peel, York and Durham. We all had —

The Chair: There's a question coming, Mr Spina?

Ms Lankin: Or is this a filibuster?

Mr Spina: Isn't that a good example of a solid initiative to assist your industry without actual spending on capital projects?

Dr Surplis: I wish actually we'd had some time to lay out — there are lots of things we're in favour of. We didn't want to come here and sound like we're complaining all the way down the piece, but yes, we duly recognize them, we acknowledge them. We're not opposed to anything virtually that's happening to stimulate business that's on the agenda of this government. There's no problem with them and we'll recognize them when they work.

Mr Kwinter: Thank you, Mr Surplis. As always, it's a pleasure to hear your presentation. I'm a little discouraged. I thought, given the fact that the hotel market is red hot — God, hotels change ownership; there are people really beating the bushes to buy hotels — you'd think there would be some new hotels on the horizon. The office business is changing. There's still some surplus, but it is certainly changing. You hear glowing reports from the Treasurer about what's happening to business and how it's very bullish and investing in equipment and plant and you'd think that would mean some building as well. Are you not getting any of that at all in your industry?

Dr Surplis: Very little. The investment going on, by and large, is not in bricks and mortar. A lot of it is in the export, high-tech stuff. There's such an overcapacity. When you mention Toronto commercial space, there is still, as of a month and a half ago, 10.6 million square feet of commercial space available in the downtown core, basically the Yonge Street corridor.

Mr David Frame: One of the keys too, if you look at what's being sold, it's being sold often at half to two thirds of what it would cost to build. If you can buy something for half to two thirds, why would you build? That's the problem we're facing.

Mr Kwinter: In your industry you need lead time. You don't suddenly get an order tomorrow.

Dr Surplis: Right.

Mr Kwinter: You've got to bid, you've got to go through the competitive process. From what I understand, you've painted a pretty gloomy picture. I assume that means there isn't a lot on the horizon as well, which means that notwithstanding what happens, it's going to be a year, a year and a half or two years down the road before you'll see any change, even if there is change.

Dr Surplis: Yes, other than those two areas we suggested that are just ready for immediate action: infrastructure — sewer and watermain rehabilitation — and apartment or multiple dwelling rehabilitation. The building is right there.

The schools program: It's been announced that there is $650 million worth of new schools coming on. We're very grateful for that. Those will be built this year, and we're getting that and a number of other things. It's not that there's nothing out there, there's just nothing along the lines that we were — we're at half the capacity and lower.

Mr Kwinter: Are you also finding that you're losing tradespeople because of that?

Dr Surplis: Very much so. Alberta is advertising here. Alberta faces a worker shortage. Klein predicts 155,000 jobs will need to be filled in Alberta in the next four years. So a lot of people are attracted. Construction is, of course, very transient. When it isn't working here, you go there, and vice versa. Of course, so many came here in the 1980s when we were booming.

Mr Kwinter: One last question. You referred to Milne and Nicholls, Mollenhauer and Cape and you say they're gone. They're not gone from the scene, they're just gone from Ontario.

Dr Surplis: No, they're gone, period.

Ms Lankin: I want to welcome the two Davids. When I'm particularly gentle with these two presenters, I don't want any of you to be suspicious, so I'm going to fess up. They're both constituents of mine, and as you can tell from the presentation, they are very sound political supporters of mine. I did not say of my political party, I said of me. I just wanted to make that clear.

David, there are a couple of things I wanted to talk to you about: capital budgeting of governments and public-private partnerships. But I just wanted to very quickly respond to the comment you made about the $600 million for schools. I don't want to dampen any hope there is in the industry, but I want to indicate to you that it's become clear to us that while the moratorium was supposedly lifted, with the introduction of Bill 104 and with expenditures of school boards of over $50,000 being subject to confirmation by the Education Improvement Commission, which doesn't come into being until the bill is passed and which has a whole process of approvals, it appears that unless the board has the money sitting there ready to go, and in most cases they don't, they will not be able to proceed with these projects. We are actually asking the minister questions about this and trying to get

to the bottom of it, but we think there is a grave danger that those projects are not going to go ahead. They're much needed in the school system as well as a much-needed boon to your industry, so that's something you might want to follow up.

I wanted to ask you about capital budgets of governments, because this is something I came to an appreciation of over the last few years that I hadn't had before. You talked about the Davis years and some cyclical financing. I think that's important. I think it's perhaps not as effective as it might have been with the economic restructuring that has gone on, but it's still important.

It seems to me that when governments need to make cuts and fiscal conservatism takes over, small-c conservatism, capital budgets often are hit the hardest because you don't see the impact.

Dr Surplis: They're easy.

Ms Lankin: They're easy. You're not taking social assistance away from individuals or cutting off their health care or whatever.

I became very convinced that it was a healthy thing for governments to separate their capital and their operating budget, to look at the need to have a balanced operating budget and get rid of your deficits etc, but to understand the investment into long-term capital projects.

Unfortunately in the last few years all parties are at fault. It got bounced around as a bit of a political football in terms of how numbers are accounted for. But that separation of capital and operating I think is a fundamental tenet of business budgeting and accounting, and I don't understand why it shouldn't be within governments. I wonder if you have a comment on that.

Dr Surplis: We've been recommending that for years actually. The multipliers are there that we can bring forward for investment in construction, investment in infrastructure.

You hit on a very interesting thing about political. It doesn't matter, we're not here to be political with anybody, but a decision — it was Art Eggleton frankly who said: "I don't know about this infrastructure stuff. Voters can't see it." He's right. He wasn't just speaking for himself or his party but everybody. They want to do things that can be seen. So it's a problem getting that message across, that it's worthwhile to redo all these infrastructure programs just so that down the road you have an attractive economy when you're moving again.

1630

Ms Lankin: I think in terms of our highway systems, the investment in the 407 is an example.

Dr Surplis: An investment. That's exactly right.

Ms Lankin: Just-in-time deliveries depend on it. If you want to site plants etc, all of that is critically important.

Let me just ask you about the public-private partnerships, because again this is an area that I experienced, that we ran head-on into when we tried to explore that through the 407. Maybe it was just too big a project to take on, but the private financing wasn't there in a way that actually made sense to the taxpayer. No doubt if you're looking at options of building and lease-back sort of thing, it's going to cost you more in the end, but you can look at amortization and you can make a decision whether or not it makes sense.

On some of these very large projects, although it makes eminent sense to build the expertise and the capacity in our economy and be able to export that etc, there are additional costs to the taxpayer. We ran into that in trying to figure out the financing on the 407. I wonder if you've got any models, or is that what the purpose of this committee is, to see if there are ways to reconcile some of the difference between the public sector needs and the private sector needs when it comes to available capital?

Mr Frame: There are lots of models out there. David mentioned earlier the organization we're involved in, the Canadian Council for Public-Private Partnerships. They are a private sector group that brings together models from all over the world that can be studied. We've been looking at a lot of those and really what we've found is that Ontario lags behind in the sophisticated nature of what's being developed all around the world.

All we're asking is to bring government and the private sector together in a group that can meet and draw up some principles of what the government can do, identify the type of programs that would make sense and get the government to initiate some of them.

Ms Lankin: I think that makes a lot of sense.

The Chair: I'd like to thank the two Davids for appearing before our committee. We appreciate your attendance and your advice.

ONTARIO SOCIAL SAFETY NET/WORK

The Chair: We now welcome the Ontario Social Safety Net/Work, Reverend Eagle and Ms Thompson. Welcome to the committee.

Rev Susan Eagle: We are here today to represent the Ontario Social Safety Net/Work. In fact we presented to you last year as well. We're here on behalf of that network to express grave concerns about the unravelling of social programs in our province and an escalating social deficit.

The Ontario Social Safety Net/Work is a provincial coalition. We have at last count more than 900 members — individuals and organizations. We were created to inform communities across Ontario about changes in social programs that make up our social safety net. In fact we've been very busy in the last year just trying to keep on top of the changes that have been announced.

Our membership includes low-income individuals, anti-poverty groups, faith communities, people with disabilities, labour organizations, legal clinics and social service providers.

A year ago we lost the protections afforded by the federal Canada assistance plan when that legislation was repealed and replaced with the Canada health and social transfer, a federal transfer payment vehicle which eliminated standards and opened the door for more American-style social programs to be introduced in our country.

Ms Jacqueline Thompson: Yet we have had a different heritage as we have developed as a nation. Frequently studies and surveys have demonstrated that Canadians care about their neighbours and about the provision and protection of social programs. Just two years ago, the federal standing committee on resources develop-

ment, after extensive hearings and consultations across the country, concluded: "Across the land, there is a strong sense of ownership in our social programs and the values they represent. Canadians want to be involved."

This is the same conclusion our Ontario Social Safety Net/Work has reached as we daily encounter Ontarians who are committed to the provision of social security, the elimination of child poverty and the goal of sustainable community development as well as the redress of fundamental inequalities in our taxation system.

Canadians have a history of a traditional commitment to fairness and compassion, and it is from that perspective that we wish to speak to you today. Decades ago, as Canadians struggled to survive the Depression of the 1930s, a commitment to social safety evolved out of the pain and misery of hunger, homelessness and unemployment. Those who survived the Great Depression envisioned a future where never again would our children go to bed hungry, where never again would the homeless languish in our streets and where never again would the sick be refused access to equitable health care.

Ms Eagle: This social vision was so strong and clear and valued that it was enshrined in the Constitution Act, 1982, which reads:

"36(1) Without altering the legislative authority of Parliament or of the provincial legislatures, or the rights of any of them with respect to the exercise of their legislative authority, Parliament and the legislatures, together with the Government of Canada and the provincial governments, are committed to

"(a) promoting equal opportunities for the wellbeing of Canadians;

"(b) furthering economic development to reduce disparity in opportunities; and

"(c) providing essential public services of reasonable quality to all Canadians.

"(2) Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation."

This vision of Canada has not been limited to internal legislation and policy documents. Canada's commitment internationally has received worldwide recognition and put us at the forefront of international agreements such as the Universal Declaration of Human Rights, the International Covenant on Economic, Social and Cultural Rights and the International Convention on the Elimination of All Forms of Racial Discrimination.

Article 25 of the human rights declaration signed by Canada states:

"1. Everyone has the right to a standard of living adequate for the health and wellbeing of himself and his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.

"2. Motherhood and childhood are entitled to special care and assistance. All children, whether born in or out of wedlock, shall enjoy the same social protection."

Three sections of the International Covenant on Economic, Social and Cultural Rights are also important to note here. Articles 6 and 7 state:

"6.1. The states parties to the present covenant recognize the right to work which includes the right of everyone to the opportunity to gain his living by work which he freely chooses or accepts, and will take appropriate steps to safeguard this right.

"6.2. The steps to be taken by a state party to the present Covenant to achieve the full realization of this right shall include technical and vocational guidance and training programs, policies and techniques to achieve steady economic, social and cultural development and full and productive employment under conditions safeguarding fundamental political and economic freedoms to the individual.

"7. The states parties to the present covenant recognize the right of everyone to the enjoyment of just and favourable conditions of work which ensure, in particular:

"(a) Remuneration which provides all workers, as a minimum, with:

"(i) fair wages and equal remuneration for work of equal value without distinction of any kind....

"(ii) a decent living for themselves and their families in accordance with the provisions of the present covenant."

Article 13 of the same covenant "recognizes the right of everyone to education" including "higher education [which] shall be made equally accessible to all, on the basis of capacity, by every appropriate means, and in particular by the progressive introduction of free education."

The International Covenant on the Elimination of All Forms of Racial Discrimination guarantees the right of everyone, without distinction, to:

"5(e) Economic, social and cultural rights, in particular:

"(i) The rights to work, to free choice of employment, to just and favourable conditions of work, to protection against unemployment, to equal pay for equal work, to just and favourable remuneration;

"(ii) The right to form and join trade unions;

"(iii) The right to housing;

"(iv) The right to public health, medical care, social security and social services;

"(v) The right to education and training."

1640

How then are we to interpret the recent actions and policy decisions of the Ontario government? Should we conclude that Canadians have changed their minds, casually decided to reverse decades of progressive, reasoned social policy and program development, abandoned Canadian constitutional rights and international commitments? Are we to believe that Ontarians no longer have any inclination or obligation to protect the inherent dignity of the human person and the right to an adequate standard of living, health care and education?

Last year, Philip Alston, Chair of the United Nations Committee on Economic, Social and Cultural Rights, reminded the Canadian government that as a party to the covenant it has an obligation to pursue policies and programs which comply fully with its commitment to the International Covenant on Economic, Social and Cultural

Rights. His letter also requested a report from Canada outlining how it is complying with its obligations. I might mention that the provinces are under those same obligations as the Canadian government.

Ms Thompson: Since taking office in the summer of 1995, the Ontario government has slashed social programs, cut back on social assistance rates for the unemployed and offered tax breaks for the wealthy. In doing so, it announced that it was getting the deficit under control and getting Ontario back to work. Neither goal has been reached. In fact, it is our belief that these policy initiatives have had the regressive impact of putting both of these goals even further out of reach of Ontario.

While there are others who speak more eloquently to the fact that a tax break and subsequent revenue reduction is counterproductive to getting the deficit under control, we will address the other goal of getting Ontarians back to work.

Ms Eagle: In October 1995 people on social assistance suffered a 21.6% rate cut in benefits. As a result, a single person on welfare now receives a maximum monthly income of $520. A single parent with a small child receives a maximum of $957. A couple with two dependants, a child and a teenager, receives a maximum monthly income of $1,214. Since the rate cuts many recipients have had two allowable rent increases, but no shelter adjustment, and so are paying even more rent than before from the basic needs side of their assistance cheque.

Attached to this presentation is a budget sheet of a real client who is trying to maximize all sources of income and yet having trouble budgeting all her expenses. We invite your expertise as a finance committee to come up with a workable solution for her. As work is scarce, she may be on assistance for some length of time and therefore needs to budget in such items as clothing and furniture etc.

To continue with her story, though, is to add another piece. Since the announcements of mega-week last month, the city administration where she lives — and I know that city — has announced that city inspectors will no longer carry out some of the standards bylaw enforcement that previously was done. One of the items that is to be cancelled is pest infestation inspections. Her building is one of the ones that has had persistent cockroach problems and a landlord who only responds when threatened by city action. Where does she go now for help? Should we also be budgeting in that amount on her budget sheet?

Ms Thompson: The Ontario Social Safety Net/Work has been part of Workfare Watch, which is a monitoring and assessment of the implementation of workfare across the province. Far from creating employment, it has become a divisive municipal initiative that we forecast will cost millions of dollars to implement. It will replace paid employment as well as usurp existing student and community service placements.

Will it be successful in getting Ontarians back to work? Social assistance administrators are openly admitting that this is not, nor is it designed to be "a job creation program or in-depth skills training." That was in the London Free Press this week.

The alternative federal budget paper that was released yesterday reminded us that unemployment is still at 10% and that one in five people and one in three families experience some form of unemployment every single year. One out of every six Canadians now lives below the poverty line, which makes the national total 5.2 million.

Workfare unfairly targets unemployed people as the problem instead of being victims of a far greater problem of unemployment. It also unfairly perpetuates the false and hurtful stereotype that unemployed people want to be unemployed and must be coerced back into working for their income. In fact, voluntary job training or placement programs have been oversubscribed as unemployed people have gone on waiting lists searching for any and all opportunities to get back into the job market.

We would ask you to be reminded that as the province downloads the family benefits recipients into the municipal delivery, many people who are currently on disability and are sole-support parents taking care of young children are the people who are going to be getting the welfare-workfare program because most people on social assistance general welfare are only on welfare for four to six months. That's research done by municipalities across the province. Again, we see programs targeted on women and the disabled unfairly.

Ms Eagle: This past October the Ontario Social Safety Net/Work released an anniversary report that tracked the impact a year later of the series of cutbacks that began with the social assistance rate cut of October 1995. We found that the cuts have hurt the most vulnerable people in Ontario. Most people affected by the cuts are children, single mothers and people with disabilities.

Ms Thompson: What was already a serious housing problem has become a housing crisis. Growing numbers of people are going without food and necessities to pay rent, as evictions rise and more and more people become homeless. In Metro Toronto in 1995, 33% of recipients paid above their maximum shelter allowance in rent. By April 1996 this had doubled to 66%.

It was reported that Ottawa-Carleton rooming-house operators were putting bunk beds in what had been single rooms, increasing occupancies in single houses from six to eight to 10 to 12. Many people have lost or soon will lose telephones, hydro and other services. The crisis is deepening as governments abandon any effort to maintain affordable social housing.

In addition, in London we have CAS workers reporting that due to the cuts of October of last year, they are now taking children into care over the winter months at the end of the months when people's hydro is cut off. That costs extra money because foster children care is double the amount of natural parent care under this legislation.

Ms Eagle: Ontario is facing a hunger epidemic. Food bank use has skyrocketed. Some examples are a 102% increase in the Belleville food bank from June 1995 to June 1996, a 150% increase at the Rainy River food bank and a nearly 400% increase in emergency food calls to a London agency. These are just some of the statistics that came in when we sent a call across the province to the different member agencies which are part of our network asking for stories. More people, including children, now go hungry regularly in Ontario.

Ms Thompson: The mental and physical health of impoverished people in Ontario is deteriorating. Persistent

hunger and malnutrition seriously impair health. Mental health is particularly jeopardized.

Ms Eagle: Welfare recipients can't just earn back the difference, as the government claimed. Only a few of the people who remain on welfare have been able to get part-time jobs or substantially increase their earnings from part-time employment. The economy would have to generate $80 million to $90 million per month in additional wages to compensate for the actual losses from the cuts. The cuts have made it much more difficult for people to find work. They have been forced to give up phones and newspapers and they have no transportation money or money for haircuts, clothing or other personal needs to be presentable for interviews.

Ms Thompson: Other supports in the community are being decimated just are they are needed most. Voluntary sector and private non-profit social service providers are closing at an alarming rate due to funding cuts.

Ms Eagle: The cuts have hurt local economies across Ontario. The cuts have removed almost $1 billion from local economies.

Ms Thompson: The situation is going to get much worse. More people will fall through the social safety net before the end of the winter of 1996-97, and we believe that tax cuts are going to help all the wrong people. As we reminded you at this time last year, before you implemented the tax cut, a simple tax cut will be unfair. Households with incomes over $95,000 make up less than 10% of all households in Ontario, but they will receive nearly one third all of the total tax benefits that you generate with this cut.

Ms Eagle: Those were the conclusions that were drawn when we presented our anniversary report a few months ago. All the MPPs were mailed a copy of that report but we did bring extra copies today just in case any of them missed reading it when it came out in October.

Our recommendations: First of all, we believe that it is still possible for this government to stop the tax cut and reverse the social program slashing. In fact, we believe that the physical and mental health of many impoverished Ontarians, particularly women and children, is at stake.

Ms Thompson: We also believe that should the government continue along its present course of action, it will bequeath a social deficit with more devastating and more far-reaching consequences than any financial deficit it is now using to justify its current decisions.

1650

Ms Eagle: Finally, we'd like to take issue with the decision to hire the Andersen Consulting firm of Calgary for $100 million to redesign the welfare system and reduce costs by $1 billion to $2 billion. We'd like to know more about that contract, we'd like to have information about it and we believe that any considered cuts such as $1 billion to $2 billion being taken out of the welfare system as part of a redesign would demolish the system and devastate the people already struggling to survive. We take issue with the fact that that contract has been offered to Andersen Consulting.

I think that's all we'd like to say at this point, but we're ready to take questions.

The Vice-Chair (Mr Tim Hudak): Very good. That leaves us with about two minutes per party for questions.

Mr Kwinter: Thank you for your presentation. I had a chance to look at your monthly budget, the actual case of a woman with two children, a sole-support mother who was on welfare. I noticed that their total income was $1,356 and if you took just the first three items — rent, hydro, food — they would be left with $93 a week to look after everything else. How do they survive?

Ms Thompson: CAS takes the children into care and they don't eat. Parents aren't eating now, children are starving, they're going to school malnourished. We are hearing these great ideas of creating breakfast programs in schools so that schools start feeding kids. There's no reason why people can't be given good resources to feed their children in a home where they're loved and cared for. There's no reason why they should be going into care through a CAS when their parents love them and are trying desperately to care for their children at home.

Ms Eagle: Jackie and I are here representing the safety network today but both of us in our worklife work at the community level with people who are trying to survive on these budgets. What we're seeing is that people cycle lower each month and become more desperate. I talked a week ago to a woman who said: "I thought I might survive. I lost my job after I had started to pay a mortgage on a house. I thought I might be able to hang on. It looks like now I'm going to default on the mortgage. I'm not going to survive. I don't know what's going to happen to me and the three children."

We're just finding a worse and worse fallout as people become more desperate. I know women who just don't eat at the end of the month, quite simply. Last summer we had a situation where a woman lost her telephone, then she lost her hydro. She took her children, dumped them off at children's aid and went home to commit suicide. Luckily she was not successful.

But those are the kinds of stories that are coming to us now and we sought this opportunity to present to you today because we don't know how else to reach you. We don't know how else for you to hear the stories of the people in the community, except to come before these committees.

Ms Lankin: Thank you. Susan, when I received the copy of the anniversary report and I read through it, particularly a number of the highlighted quotes, people telling their own stories, I was both moved and angered that this could be happening in such a way in Ontario.

You've just talked about some examples. I was speaking with some directors of children's aid societies who have told me that in the past — first of all, the volume of caseloads they're dealing with has gone up dramatically — but in the past the primary reason why children would be taken into the care of the CAS would be a situation of either extreme violence in the home or addictions of some sort. The single largest reason now is a category called "Parents cannot cope." That's it, just can't cope, and it's like the woman you just talked about.

I don't have a specific question for you. Take the other minute that I have and just talk to the government members because they're the people you have to convince that the policies, the directions are wrong.

Ms Eagle: Well, let me read you what some children in North Bay had to say about what poverty is:

"Poverty is not getting a hot dog on hot dog day, not getting pizza on pizza day, not going to Canada's Wonderland, not being able to have your friends sleep over. It's pretending that you forgot your lunch, being afraid to tell your mom you need gym shoes, not having any breakfast sometimes, not being able to play hockey. It's sometimes really hard because my mom gets scared and she cries. It's hiding your feet so the teacher won't get cross when you don't have boots."

I guess our appeal to you is not to cast off the poor. With the downloading to municipalities and now the news that you may allow municipalities to even set rates for social assistance, we know that it'll be an even quicker race to the bottom. I haven't lived a long time, but in my memory I have not seen a government that has cast off the poor the way it seems this government is trying to do. We're appealing to you not to do that.

Mr Jim Brown: Thank you for your good presentation. In terms of your recommendations, I would like to ask you about your comment that you'd like to challenge the decision to hire the firm Andersen Consulting of Calgary for $100 million to redesign. I'm not aware of any expenditure of $100 million to do this redesign. Could you tell me more?

Ms Eagle: I can't tell you much more than that. We have heard from the company that they seem to think they're getting $100 million for doing this job for the Ontario government, but maybe you can clarify for us.

Mr Jim Brown: You phoned the company or the company phoned you to say that they had this deal and they're going to the bank and they're banking it already?

Ms Eagle: No, it came in a more roundabout way and we wouldn't be prepared to disclose the source, but that certainly is what we were told.

Mr Jim Brown: So you have not been talking to the company yourself.

Ms Eagle: Not myself, no.

Mr Jim Brown: So you really have no indication that's it's $100 million.

Ms Eagle: We're asking the question and we'd really like to know if that's what's happening.

Mr Jim Brown: They could be theoretically doing work for free. They could be doing it on a contingency basis or they could not be doing it at all.

Ms Eagle: I understand possibly that they get their money if they can save $1 billion on the welfare system, and to me that would really be literally taking food from the mouths of the hungry.

The Vice-Chair: Thank you, Mr Brown. That concludes the time. To Ms Thompson and Rev Eagle, thank you very much for your presentations and your submissions. Have a good day.

PHARMACEUTICAL MANUFACTURERS ASSOCIATION OF CANADA

The Vice-Chair: The next deputation listed is the Pharmaceutical Manufacturers Association of Canada, Mr Gerry Jeffcott. Is the association in the room? I'd like to welcome the Pharmaceutical Manufacturers Association of Canada on behalf of the standing committee. I understand you have presentations to be handed out to the members that are arriving shortly. Introduce yourselves for the sake of Hansard and begin when you're ready. You have half an hour. Any time left over can be used for questions.

Mr Gerry Jeffcott: Perfect. Thank you, Mr Chairman and members of the committee. We appreciate the opportunity to appear before you today. My name is Gerry Jeffcott. I'm the director of national/provincial affairs and pharmacy relations for the Pharmaceutical Manufacturers Association of Canada. My colleague Bob Stinson is manager of government affairs for Ontario for Merck Frosst Canada Inc and he's also a member of our PMAC Ontario committee. We are pleased to be here today to offer the PMAC committee's comments on the government of Ontario's budget process for 1997, and we are pleased to provide our views on the economic factors facing the province and the brand-name pharmaceutical industry in Ontario.

Let me begin by providing you with some background information on the association. It represents the interests of Canada's research-based pharmaceutical industry. These are companies which are engaged in innovative research and development and manufacturing of prescription and professional non-prescription pharmaceuticals. PMAC members employ more than 17,000 people in Canada.

1700

Thirty-four members of the our association have their Canadian headquarters in Ontario and several others have a significant presence in the province. Together, they make a significant contribution to the economic wellbeing of the province, including directly employing 8,000 people here in this province; we inject approximately $1.2 billion into the Ontario economy annually; we have invested $268.1 million in innovative research and development in the province in 1995; and we invest tens of millions of dollars in supporting an emerging biotechnology sector.

Almost one quarter of our industry's research and development investments are spent externally. As a result, the brand-name industry is a major contributor to the basic and clinical research conducted at universities and hospitals throughout the province. In 1994-95, the brand-name industry contributed approximately $50 million to the five faculties of medicine in Ontario, which represents approximately 14% of the total amount spent on biomedical research in these facilities.

The brand-name companies located in Ontario have a tremendous export capacity. As a result, many of these companies have been awarded North American and global research and product manufacturing mandates. With more than half the pharmaceutical companies located here, it is vital that the provincial government demonstrate that Ontario has a receptive business environment. This is important in order to maintain current investment and employment and to attract future investments into the province.

As the cornerstone of the government's economic policy, this provincial budget has a direct impact on the ability of our industry in Ontario to compete within the global marketplace. The economic climate that is created by the government's fiscal policy is important to our association's members, who compete for global research

and development and product manufacturing mandates within their respective companies.

The 1997-98 Ontario budget will outline the government's plan to create an economic climate which will allow the private sector to grow and create jobs in the province. Key components of this plan, from our industry's perspective, must include managing the provincial health care budget effectively; streamlining the drug submission and evaluation process at the ministry; and supporting a strong patent protection framework for the innovative pharmaceutical and biotechnology industries in Canada.

During the past two years, the provincial government has maintained an annual budget within the Ministry of Health at $17.4 billion. At the same time, the ministry has implemented fundamental change through restructuring the delivery of health care services through eliminating waste, duplication, abuse and mismanagement from the system. The savings achieved through these processes have been reinvested in front-line patient programs.

The PMAC believes that as the government of Ontario, in particular the Minister of Finance, reviews program spending in the Ministry of Health for 1997-98, particular attention must be paid to the role that drug therapy, provided primarily through the Ontario drug benefit program, plays in providing cost-effective, quality health care to citizens across this province.

The government spends approximately $1 billion annually on the ODB program. While it is true that the ODB program budget has grown in recent years, demographic change and increasing utilization have been the primary drivers of this cost increase. Indeed, drug usage, particularly the increasing number of recipients, accounted for almost 35% of the cost increase associated with the ODB program between 1985 and 1995. As well, it is estimated that an increase in one prescription per ODB-eligible recipient adds approximately $50 million to the budget.

The PMAC believes there are ways to reduce the costs of the ODB program and spend smarter. We support the government's efforts to abolish silo budgeting, which will enable cost savings to be carried over from one division of the ministry to another. This will allow savings from reduced hospitalizations and physician visits from new medications covered by the formulary to be realized. The association recognizes that the ministry has endorsed the concept of an integrated delivery system and is looking at ways to implement it at the community level. The PMAC would be most willing to work in partnership with the ministry to achieve these objectives.

Ensuring the appropriate use of drugs is also crucial to reducing costs within the drug program budget. The PMAC supports the Ministry of Health's goal related to appropriate drug use, as stated in its 1996 business plan, and maintaining a firm commitment to optimal therapy. Indeed, the PMAC is an active partner with the ministry and other health care stakeholders with respect to the Knowledge is the Best Medicine campaign, which promotes appropriate prescribing and responsible use of medications, and it encourages consumers to become more knowledgeable and aware of their prescription medication use.

In summary, if the Ministry of Health implements these changes, we believe the provincial health care budget can be managed more effectively.

Our second point concerns the need to improve and streamline the drug submission and evaluation process within the ministry. The current approval process for obtaining coverage for drugs under the ODB program involves a significant amount of unnecessary and costly regulatory duplication with the federal health protection branch. Reducing this regulatory duplication would result in improved and timely access for patients to new medications, provide a more welcome environment for companies in our industry to invest and may also reduce costs to government.

There's also a need to introduce greater transparency into the submission review process. The PMAC believes that making the review process more transparent has advantages for the industry and for the Ministry of Health. For example, currently the Ministry of Health directs requests for information through the lengthy and time-consuming freedom-of-information process. An improved, open process will result in a faster review of submissions as well as facilitating more efficient decision-making and it will reduce the time patients have to wait for new important medications.

The PMAC would like to acknowledge at this time the work the Ministry of Health has undertaken in the past year to reform the process and make it more efficient. We appreciate and support the efforts made by ministry officials to respond to our suggestions for improvement. However, we believe there is more that can be done to streamline the process, such as eliminating the submission requirements which duplicate safety and efficacy documentation already provided by manufacturers to the HPB for its review. We urge the provincial government to continue its efforts to streamline the regulatory process and improve the economic climate for our industry.

We would also like to acknowledge the work of the Red Tape Review Commission and express our support for the recommendations contained in its final report concerning the Ontario drug review and approval process. We urge the ministry to work with our industry to implement these recommendations, which focus on eliminating duplicative or unnecessary submission requirements, improving the transparency of the submission process and enhancing the timeliness of the overall process.

I'm going to ask Bob, my colleague, to focus on the third and final component of our presentation, namely, ensuring a strong patent protection framework for the innovative and biotechnology industries in Canada.

Mr Bob Stinson: My name is Bob Stinson. As you know, I work for Merck Frosst. It's a pharmaceutical company with a significant presence here in the province.

As you've already heard, Ontario is the key centre for investment for research and development within the brand-name pharmaceutical industry. It also is Canada's leader in biotechnology, with the largest share of biotech firms in the country, representing 3,500 highly skilled scientists, engineers and technicians who work in these Ontario-based biotech companies.

The growth potential of this industry is significant. It's currently growing at 11% a year. Ernst and Young

released this information recently in a press release that will be part of their document on a review of the biotech industry that will come out sometime in mid-March. It's going to be quite stunning, because we're talking about an industry that was extremely small a decade ago, something like 100, 120 companies. It's now at 229, which is a relatively conservative estimate, and it's their prediction that it will be a $1-billion industrial sector by the end of the century. This is truly a Canadian success story.

1710

These are people working in these biotech facilities who have graduated from universities. They are people who have appointments at universities, be it York University, U of T. They're people who teach currently at Seneca College, who now have cross-appointments and work in these biotech companies. It's a wonderful transference of discovery and ideas at the university level going over into a technology transfer, coming out with products that will be aimed at treating diseases currently not being addressed and not being treated.

It's a new technology, and as taxpayers here in Ontario we've contributed significantly to the education of these people through the taxes we pay every year to support the universities and college, and now we're getting the benefit of this through the emergence of this biotech sector, which Ontario is the head of.

The brand-name and pharmaceutical biotechnology industry sectors have experienced significant growth in Ontario during the past decade, largely due to an improved federal protection law known as Bill C-91. Bill C-91, which was passed in 1993, brought Canadian patent protection for pharmaceuticals just about up to world levels.

During the past 10 years, the brand-name pharmaceutical industry has surpassed the commitment it made when C-91 was passed to spend 10% of sales — this is Revenue Canada-approved R&D, so it's Revenue Canada that decides whether or not this is true R&D. Then it goes through another body, called the Canadian Patented Medicine Prices Review Board, which again looks at the data we supply to them and approves it as being true R&D. So it's pretty rigorous, and we've lived up to our commitment. Indeed, the research spending has risen by more than 276% in Canada, reaching a total of $3.2 billion since 1987.

Moreover, price increases of patented prescription drugs have averaged below the rate of inflation from 1988 to 1994. In 1995, prices declined by 1.75% from their 1994 level, which is significant. In terms of job creation, 3,000 direct jobs have been created by the industry since 1987, with 3,800 indirect, research-oriented positions that have been created through universities, hospitals and clinics across the country.

It's important to note that the generic pharmaceutical industry has experienced significant growth as well, since patent protection was brought up to world standards under Bill C-91. You're going to hear a report shortly from IMS that will report generic growth of 22% during the last year versus a growth of 0.6% in dollars for the brand-name industry. This is quite a dramatic turnaround.

Later this month, Parliament, the federal government of Canada, will review Bill C-91 under a mandated legislative review process to determine the benefits associated with the legislation. Preserving the economic gains mentioned above and enhancing the province's potential to achieve even more growth in these sectors must be the focus of the government of Ontario's position during the 1997 parliamentary review.

We're asking the Ontario government to support international standards of patent protection for the innovative pharmaceutical industry, including maintaining the 20-year patent term for pharmaceutical and biomedical products. This is exactly the same patent status that exists now for the television monitor in the room. For pharmaceutical products, biotech products aimed at human health consumption, the patent is being brought up to the same level as what you can get for any other patent for any other knowledge-based sector. The only reason we're here to discuss this particular issue is because a quarter of a century ago, patent protection for pharmaceuticals was weakened significantly below what it was for other knowledge-based products. Now it's coming back up to that level, and that's where C-91 is aiming it at.

The second point is that we want to encourage the federal government to provide market compensation for drugs delayed by regulatory approvals by establishing a form of patent term restoration for up to five years.

We want to support the enshrinement of linkage regulations, which prevent illegal copies of drugs from being sold in Canada, in the Patent Act itself. Right now these are linkage regulations, and as legislators you know the difference between regulations and legislation.

We'd like to advocate greater stability and certainty to the intellectual property rights in Canada by eliminating the need for formal legislative reviews at statutory intervals of the Patent Act respecting pharmaceuticals.

We're asking the government of Ontario, through you, the members of the standing committee on finance and economic affairs, to make a clear statement that it values the economic benefits associated with the strong brand-name pharmaceutical and biotechnology industries in the province. Ontario can lead the way in biotechnology and biopharmaceutical development. Ensuring federal patent laws reflect the province's commitment to economic development and job creation is central to that leadership. We ask the government to support our industry's need for truly international standards of patent protection in order to ensure that Ontarians benefit from the present and future potential of a truly dynamic industry.

In conclusion, the 1997-98 Ontario budget provides the government with an opportunity to demonstrate its commitment to improving the investment climate for the innovative pharmaceutical and biotechnology industries in the province. The keys to the continued success of our industries in Ontario during 1997-98 are linked to the effective management of the provincial health care budget, streamlining the drug approvals regulatory system in the Ministry of Health and obtaining the government of Ontario's strong support for maintaining the international standards of patent protection for intellectual property in the innovative pharmaceutical and biotechnology industries in Ontario and throughout Canada.

PMAC would be pleased to work with the Ontario government to meet these objectives.

Ms Lankin: Consistent with my practice earlier in the day, I want to inform the government members that Mr Stinson is also a constituent of mine. The Beaches is just a wonderful place to live.

Interjection.

Ms Lankin: I'll let Mr Stinson comment on that.

Bob, I wanted to ask you a couple of things, but the comment you just made about enshrinement of the linkage regulations in the Patent Act itself, how would that have affected some of the notable court cases that we have seen take place, the dispute about whether something's out from under patent or not and distributable or not?

Mr Stinson: That's a very good question. Frances is a very able member and I have no problem saying that to this committee. Frances has extensive experience in what can happen when legislation is not there to protect the players in the domain. The linkage regulations as they stand now do not allow for protection of patent-holders. What we would like is for the linkage regulations to be strengthened and also to be enshrined in the legislation.

The issue is that C-91 was a huge compromise. It's a traditional Canadian case. Generic drug manufacturers were given the ability to manufacture and stockpile a generic copy of a patented product three years before a patented product would lose its patent, which is fabulous for people who are concerned with budgets, because it would allow a generic drug to come on to the market the day after a patent expired.

Ms Lankin: Governments have a great interest in that as well. That's why they would have supported it.

Mr Stinson: Absolutely, and I subscribe to that. The day a patent expires, then that product is available for the public domain. But you see, by allowing someone to take three years in advance to go and manufacture and stockpile the material, there's no mechanism for preventing the manufacturer of that generic product to come on to the market. The linkage regulations will do that, because it will allow the justice department to look at the patent status and not allow patent infringement to go into the marketplace, causing governments, who are payors, huge problems. Thousands of hours were put into fighting legal battles because they went into the public domain instead of being dealt with by appropriate legislation.

Ms Lankin: Try being a minister with both sets of lawyers and lobbyists coming to you and telling you to sort this all out.

Mr Stinson: I don't know how you ever survived it, but you know, you did the right things.

The Vice-Chair: Thank you, Ms Lankin.

Ms Lankin: Is there a chance just for a quick comment which may —

The Vice-Chair: I'm sorry. We've gone over the time. On the government side I have Mr Brown and Mr Spina.

1720

Mr Jim Brown: Mr Spina first, then Mr Brown.

Mr Spina: Thank you, Bob and Gerry. Don't go to Vermont. You know why. A quick question that I wanted to ask you: There is a duplication of the approval processes. Once the federal government has put it through, then the provinces individually have to go through that same process. What's that costing the industry, the manufacturer? If that was simplified, what do you see is the real benefit? Would that mean cheaper drugs?

Mr Jeffcott: I'm not sure we've got specified figures that I can quote to you, but I can tell you this. What it involves is literally volumes of material which is submitted to HPB, and I'm talking rooms full, at times, of clinical data, which is passed on to HPB, then being reproduced 10 times to meet the requirements of each of the individual provinces and not reproduced the same in each of those 10 provinces, but customized and moved around appropriately in order to meet those requirements. You can imagine the time consumption and the staff power that's required to pull that kind of material together for essentially the same information to be shared with 11 different jurisdictions.

Mr Spina: Same standard?

Mr Jeffcott: I beg your pardon?

Mr Spina: Are we trying to achieve the same standard here, in Canada?

Mr Jeffcott: Clearly, the issue here is we're trying to develop some consistency, first of all, to assign to the HPB the responsibility for reviewing data that's important to it and ask the provinces to leave that material alone and look at material that is important to them, but more important, once we can create that distinction as to who's responsible for what, then one submission which we can utilize across the 10 provinces instead of 10 different submissions.

Mr Kwinter: Gentlemen, it's always a pleasure to hear from you. I want to commend you and your industry on the work that you've done. I have to admit I was a little sceptical when C-91 was proclaimed. I was hoping that the industry would not be making up the R&D component just for clinical research but it was doing some really true greenfield kind of research and, after visits fairly recently at both Eli Lilly and Glaxo Wellcome, I was very impressed, and they're just a representative grouping of the industry.

One of my concerns that I see in your presentation is about what is happening with the utilization costs. The government makes a big deal of the fact that it's keeping funding for health at $17.4 billion each year, but that doesn't take into account the growing population and the growing utilization. Now it's true that they say that they're doing things more efficiently. Is there enough saving in the efficiency to combat the increase in utilization, or are we actually getting to the point where, because of the restrictions, there are people who are not able to access the drugs they need?

Mr Stinson: Are you asking whether the restrictions that are now in place are preventing patients from getting drug treatment?

Mr Kwinter: What I'm saying is that the allocation for health is $17.4 billion. That would be fine if everything stayed constant. It doesn't stay constant. The population is aging, the population is growing, new drugs come on, all sorts of things happen. To counter that, there are efficiencies put in the system by whatever they're doing. All I really want to know is, is there a match there or are we finding that the utilization is greater than whatever the efficiencies are?

Mr Stinson: I think I must applaud this government for letting the Ontario drug benefit budget float upward as the demand for drugs increases for the reasons that you have stated. There has been no movement by the government to reduce the expenditures on drugs. In fact, there's been a recognition that drugs are one of those cost-saving components in the budget of expenditure on health that should be perhaps looked at and maximized. Efforts are being made to look at utilization to ensure that there is appropriate utilization, and we're working with the government to ensure that there is not inappropriate utilization of drugs, but rather appropriate. That will probably mean there will be an increase in the expenditure on drugs as time goes on when appropriate uses are really looked at and determined.

The company I work for has just entered into an agreement with Nova Scotia on a $6-million project with the government and a number of other stakeholders and we're looking at the appropriate use of cardiovascular drugs. The number one mortality cause in Nova Scotia is heart disease and they're looking at ways of managing their patients more efficiently. They realized, when we went into this project together with the university and a number of private sector partners, that they would probably end up having to spend more money on some drugs simply because they were not being utilized appropriately. That's the direction we're going.

The Vice-Chair: On behalf of the standing committee, thanks, Mr Stinson and Mr Jeffcott, for your presentation.

32 HOURS FOR FULL EMPLOYMENT

The Vice-Chair: The next delegation is 32 Hours for Full Employment. I have Joseph Polito and Anders Hayden on my list. Welcome to the standing committee on finance and economic affairs.

Mr Joe Polito: My name is Joe Polito. This is my daughter, Darcy.

Ms Darcy Polito: Good afternoon.

Mr Polito: I've got a few props here. Thank you for the opportunity to provide some feedback to the budget process. My name is Joe Polito. I'm a member of a volunteer group called 32 Hours for Full Employment. We're a diverse group of ordinary citizens trying to make a difference. I'm very proud of the group's rapid growth and accomplishments, but we're a new group, still defining our identity and positions, so I've included the latest drafts of our principles and a brochure which we are preparing.

Please keep in mind that though the group delegated me to make our contribution to the budget process, any deficiencies are mine. We haven't yet had our first annual membership meeting to solidify some of the details of our positions, nor did we have time to prepare the presentation with the full input of our membership. In other words, if you like anything, it's to the group's credit, and if you dislike anything, it's me you blame.

Our presentation will focus on a few modest goals for your budget: to save billions of dollars for the budget annually, to improve our international competitiveness, to reduce unemployment and to reduce provincial and municipal debts. But more on that later.

Scholars tell us that our fiscal budgets are a statement of who we are and what we value, so first let us focus on Ontario's identity and values, which are the foundation of this budget.

Our identity is strongly linked to the roots of the North American capitalistic miracle — the strongly principled people who left religious and political repression in Europe in search of freedom and an opportunity to fulfil their potential. These people brought the religious work ethic to free enterprise. It was characterized by hard work, self-reliance, justice and mutual respect. Such business people were famous for honouring their word or their handshake. Their admirable business skills were only a part of a life which was governed by spirituality and ideals, as with that classic Dickens character Ebenezer Scrooge after his memorable Christmas Eve experiences.

Spirituality and idealism are still abundant in Ontario. All the great religions and cultures are now represented here and we have armies of citizens who are humanitarians, environmentalists, politicians, feminists, human rights advocates, anti-racists, members of terrific charities and volunteer groups. Governments at all levels have more than their fair share of such people, people who care and want to do the right thing. Such elected leaders went to considerable expense to ensure travel, building access and washroom services for the disabled, even though it might decrease our competitiveness. For generations such leaders working with Ontario's remarkable populace have helped build the most civilized, humane, tolerant society of the 20th century, and perhaps in the history of the world.

1730

Ontarians believe that a job is the best social program. It gives esteem, sustenance and dignity. A job allows people to contribute to the wealth of the nation rather than depend on it. Efficiency in the private and public sector benefits all of us, permitting us to utilize our resources most effectively. We believe that democracy with a mixed economy and a vibrant private sector is the best way to manage our resources, meet the needs of the people, improve the quality of life, and provide a just and safe society. We also believe that budgetary conditions should not compromise our principles about health, education, child labour, employee benefits, health and safety, the environment, and many other items that might affect our competitiveness.

The perspective of our group, 32 Hours for Full Employment: As our name suggests, our group is focused on one particular component of society's multipronged attack on unemployment, the deficit, child poverty, food banks, youth and native problems, cuts to health care, the environment, the family, quality of life, better profits, Canadian competitiveness and on and on we go with all the problems that we are faced with. Obviously, our group and those of you burdened with the challenge of fashioning a budget have common enemies, in particular the impact of the inevitable economic downturns.

For the budget, these slowdowns mean a significant increase in safety net expenses and a reduction in revenues. When the slowdown is prolonged, as with the last seven years, the resulting deficits are quite alarming. The

downturn's impact on the budget may be obvious, as with enormous welfare payments, or it may be subtle, as suggested in the February 2 newspaper report on the National Forum on Health. The headline, "Joblessness Called Our Number One Health Threat," reminds us of the great health care costs of unemployment. The forum report listed the physical and mental health consequences of unemployment, including more cardiovascular disease, emotional problems, increased problems for children, especially teenagers, suicide attempts and lingering health problems even after regaining employment.

For our group, and I am sure for everyone in public office, the concern is the disproportionate impact on a small percentage of the population. A small percentage loses their jobs, their businesses, their families, their health, their marriages and their self-respect, while the rest of us experience very little change except that our payroll taxes and income taxes are increased to preserve the safety net. An astonishingly high number of these victims are young people.

Our young people are better educated than ever before, but far too many of them must postpone their dreams of a career, family and home because work is intermittent, part-time or unavailable.

I brought one prop to illustrate that point. She and so many of her friends are better educated than young people ever before and yet so many of them who graduate from some post-secondary institution can't find work. Some of them are even offering their work for free. The Globe recently published a headline, "Good News Excludes Our Youth." "The unemployment rate for ages 15 to 24 remained above 16% and the work that they get is often underemployment or worse."

We are advocating a course of action which will address their plight. Simultaneously, this action will contribute significantly to restoring financial health and preventing such a financial crisis from occurring again.

Our view is not some impractical pipedream. We all know Ontario's short history has witnessed an economic miracle based on free enterprise, technology, managerial science and democracy. The result is the finest standard of living in the history of the world. But most of us forget that the miracle was also accompanied by a gradual reduction of the workweek, often in response to economic slowdowns. Historians have documented 70- to 80-hour workweeks less than just 200 years ago. Imagine what the unemployment rate would be today with a 70-hour workweek.

At the beginning of this century, the standard industrial week was 60 hours. It dropped an average of three hours a decade until the 1950s and has been stuck there ever since. Is it sheer coincidence that since the 1950s the unemployment rate has increased? Is it sheer coincidence that social problems and crime have increased ever since?

The future: We've talked of the past. Let's talk of the future. Part of the concern about budgets — federal, provincial, municipal — is the debts that we can pass on to our children, to her. Surely ensuring future jobs for them is just as valid a concern. Does anyone here deny that the next 100 years of continued improvements in technology and management won't mean a dramatically reduced workweek? At one time in Ontario, 80% of the population was involved in agriculture; today it is 1%. That same thing is being repeated over and over again in industry and in every form of life. It means we have to reduce the workweek.

The gentlemen who came here previously were talking just about that. They're getting more and more efficient and hopefully they're going to grow very rapidly. I wish them luck. Maybe they'll hire her. But it won't be enough unless we shorten the workweek. It's inevitable.

Even if every future federal, provincial and municipal policy works, we cannot avoid economic downturns, and this is the key point we're trying to make here. Let's assume that everything all of you are doing at all levels of government makes the economy work better than it's ever worked before, that we don't make any more mistakes. We still are going to have problems unless we shorten the workweek; that's the main point.

It's estimated that 25% to 40% of private sector activity involves trade with the US. If the US goes into a prolonged recession, our provincial budget, no matter what things we do here, will be in tatters.

In the business section of this paper there's an article here about an economist who is "a lonely bear," and the gentleman's name is Mark Mullins. If I'm not mistaken, he was highly involved in formulating the Common Sense Revolution policies. He predicts that we're probably going to go into a recession in 1998, and the only reason he makes that prediction — he has no concerns about the Canadian economy in itself; we're very competitive now, the dollar is down, interest rates are down- — the one reason he sees a recession and the other economists don't is that he sees a recession in the United States. If that happens, we're helpless, this budget is in tatters. The only way to address that is by shortening the workweek.

A successful national model: In the 1990s Japan has gone through a protracted downturn. It had two speculative bubbles burst: the stock and real estate markets. Historically, just one collapse, one burst bubble, would cause a depression; they've got two. Their economy has been rocked, there's no denying it, by these experiences, yet their unemployment rate is still at 3%. Why? Largely because the average hours worked per year in the last five years dropped from 2,100 to 1,900; that's a drop of 10%. If they hadn't done that, they would have 13% unemployment. Imagine what that would do to their welfare and unemployment bills. Imagine what that would do to their budget.

More recently, France and Quebec have been working towards reducing work time to increase employment. Each is examining incentives to do so. In Germany, 43% of the full-time employment created from 1983 to 1992 was due to the reduction of normal work hours. Furthermore, the German government has been examining methods of reducing the use of overtime to create more jobs. Many jurisdictions have been increasing mandatory holidays to increase employment.

In Belgium, the 1995-96 government economic plan to increase employment, competitiveness and financial equilibrium includes an annual bonus for each job created when work time is shared.

It is important to note that this approach does not magically end a recession. It simply distributes work fairly, spreads the pain and reduces pressure on the budget, thereby preserving valuable public services like health.

This isn't something that just governments are doing. Lincoln Electric is a famous company in the United States, a very conservative company, but they never lay off employees during a slowdown. Instead, everyone's hours are reduced. We've all heard of Hewlett-Packard, another remarkable firm. It's had extremely successful workweek experiences in Europe, actually making plants more successful. Employees' wages were proportional at first, but they were so successful and so efficient, productivity gains were so good, that they actually are now working fewer hours at the same original pay, and that plant is one of its most profitable.

The Big Three recently added paid holidays to their contracts, leading to 1,000 new workers being hired. I understand all of the Big Three in Canada are reporting record profits.

1740

Savings to the government: These models could dramatically reduce the $64 billion governments spend on unemployment. We all know that unemployment adds tens of billions to unemployment insurance and welfare expenses, but few realize that it also adds many billions to crime, health and education expenses.

Savings to taxpayers: Shortening the workweek is a much better way of reducing government expenditures. Currently, it is very difficult to accept government cuts in good conscience when we know that it means less food for an unemployed person. It especially bothers me because this past year my mother-in-law had to wait eight months for a heart operation, and a subsequent error because of the compression of care almost killed her.

I have a friend right now in the hospital. He went into the hospital with heart pains, chest pains. They put him on special medications, blood thinners. It's been over a week and it wasn't until today that they were able to do a procedure to save his life. They just didn't have the rooms, they didn't have the personnel. This is something new in my experience in Ontario.

Savings to business: Experts have found that when the workweek is cut by 10%, there is only a 5% increase in new employees. That's a 5% cut in costs, or a 5% increase in productivity, which translates into profits. It may well be that the slowdown in productivity in the last 50 years is related to the static length of the workweek in the last 50 years. UI payroll costs would also go down. That would reduce business costs and make us more competitive.

Contribution to the goals of all governments: It would cut waste and the deficit without reducing services; create more jobs; reduce the UIC payroll tax; reduce provincial and municipal debts; improve the competitiveness of business and attract investment; improve the quality of life for all citizens, especially young people and families; avoid cuts in health care, municipal transfers, junior kindergarten and the like; alleviate the pressures on new Canadians, who are the last ones to be hired and the first ones to be laid off.

Contribution to the effectiveness of all levels of government: Shortening the workweek would reduce the pressure, because it would help you to save costs, to implement changes at too hasty a pace, which is alarming to ordinary citizens and has many risks. I know two people right now who went through the Second World War. One was in London during the air raids. They say they feel more nervous, more insecure than they did then because of all the changes that are taking place. For us little people, us ordinary people, change is an extremely stressful thing. Shortening the workweek would give you the time to make those changes at a pace which the working public could tolerate. By shortening the workweek we would have healthier finances and thus the time to phase in and test each proposed change one at a time.

The recent problems with the family support plan demonstrate that it takes time for new ways of doing things to work well. This isn't a criticism of the changes that are being implemented. We all know that when we renovate a room or a department or anything, the transition requires extra resources and a need to go through a learning curve. Once the change is implemented, we can move on to the next project and do it well. Shortening the workweek would give us the time to do those things well.

Myths for the budget-setters to avoid:

Myth 1, the cause of our economic downturn: Some experts tell us that the economic stagnation of the last seven years was the result of an inability to compete. We are told that our safety net, payroll taxes and government services contribute significantly to this problem and discourage investment. The solution, we are told, is to cut back. Many economists argue this, many professionals. This isn't anybody's political position.

Yet if competitiveness is the problem, why are we having an incredible boom in exports? We are enjoying a trade surplus with the US of such staggering proportions that it's becoming a serious concern to some American politicians. They may come after us the way they went after Japan. Half of that surplus is Ontario's, although we're only one third of the population, so we must be doing pretty well here already in terms of competitiveness.

The book Unnecessary Debts analyses the unemployment and debt problem. The two graphs from that book summarize the conclusion: The primary cause of high debts and unemployment was the high interest rate policy. The monetary policy exactly parallels the growth in debt.

If you take a look at the last page of the document that I passed out to you, on the back I've photocopied a couple of pages from that book, Unnecessary Debts. The top page is the actual debt. You can see how the debt's grown; it's no secret to anybody. The bottom figure, though, shows you that in about 1980 there was a tremendous increase in the average real interest rate paid on the public debt. The two processes are exactly parallel. As soon as they pushed up — through monetary policy trying to fight inflation, monetarism — the real interest rates, the debt grew much more rapidly; it really accelerated. Why? The magic of compound interest.

It has the same effect on debt as it does on your savings. If you can find a better investment at a higher rate, your savings will grow much faster. It does the same thing to our debt, and that's what that graph demonstrates beyond the shadow of a doubt. The cause of our current plight was not competitiveness or anything wrong with anything that goes on in Canada; the cause was monetary policy. That I think has been fixed and it bodes well for our economy. I think things are really going to pick up.

Unfortunately, high rates slow growth and reduce government revenues while increasing expenditures in unemployment, welfare, health and subsidies for housing, drugs, day care etc. Experts say these costs of unemployment are about $64 billion. The problem is not that we can't afford social programs; the problem is that we can't afford high unemployment. Whether we're in boom times or a downturn, we can avoid high unemployment by shortening the workweek. That's the key thing. It's the downturns that are going to kill us, folks. The next recession will kill us. There was an article in the Globe this morning saying just that.

Budget problems also lead to a rash of tax hikes imposed to cope with the increasing debts. For 15 years our real rates have been too high. The new era of low rates will reverse the damage.

The second page, on the back of that page — I tried not to kill too many trees — is a graph from the Globe and Mail Report on Business Magazine. There are two items here. One is real family incomes. You'll note that the real incomes plateaued in 1980 and 1989. What happened on those two occasions? In 1980 it was Paul Volcker, 18% interest rates; I remember that. In 1989 it was John Crow who pushed our rates 5% above those in the United States and we collapsed.

The impact on industry? No secret again; this isn't rocket science. In 1982 the average retail sales per capita dropped from almost $7,000 to almost $6,000. In about 1992 or 1993 the average retail sales dropped from almost $8,000 to about $6,800. That's astonishing; no wonder we saw so many people going bankrupt. That was all monetary policy.

Myth 2: We're living beyond our means. We are currently experiencing debt paranoia. Debt has become the storm god of the modern era. We are asked to sacrifice people on the altar of this god. We must appease it or our world will collapse. On that altar we place valuable government programs like health, justice and education; we place valuable people like environmentalists, health inspectors and nurses. The supposed reason for all this pain and sacrifice? We've been living beyond our means.

When well-meaning politicians feel forced to cut our services, it recalls one man's vivid and perplexing memory of the Great Depression. In his community there was a broken tractor, a hungry, unemployed mechanic and an unharvested crop. The resources existed to feed the hungry, fix the tractor and harvest the crop, but the obvious solution was not happening. Today we have the hospitals and the trained professionals to vastly improve our health care, but instead waiting lists for surgery grow and the quality of care deteriorates.

The great irony is that cutting back is part of the problem, not the solution. Why is it a jobless recovery? We've done it to ourselves. At all levels of governments — no single party is to blame — everybody has accepted the same paradigm. There has to be a paradigm shift. The shift is: Shorten the workweek and you won't be forced to make these cuts.

I was talking about the impact of monetary policy. The same is true if government cuts expenditures. We saw that in the Second World War, when government increased expenditures, we went from the Great Depression to full employment. When we cut government expenditures it has the same effect: a reduced demand for goods and services. Governments buy computers, governments buy furniture, governments employ construction workers. They're part of the total demand for goods and services. We have been creating our own jobless recovery by cutting government expenses. I'm not saying we shouldn't have cut them, but we should have cut them the smart way. A smart missile: Reduce the workweek.

1750

Myth 3: There's a lot of fat in the system. For at least six years, and more in health, governments at all levels have been rationalizing and downsizing. There's no more fat there; we're going at muscle now.

Myth 4: The great threat to our children is the burden of future debts. Bruce Little — page D1, Globe and Mail, February 8 — demonstrates that the deficit is about to fall rapidly and the real problem will be managing our future surpluses. If this seems silly, look at Alberta. They went from a worse debt than ours per capita and now they're in surplus. Their economy wasn't hit the way ours was by the terrible monetary policy, but it's the same system.

"Let the good times roll," says Bruce Little. He shows our debt plummeting and he explains why. It's simple arithmetic. Everybody expects it. If I look back at this graph here, if you look at the Canadian debt, it was starting to come down in 1988. We had made the right moves, the right changes. We were okay. John Crow came in and it collapsed.

Myth 5: Cutting back stimulates the economy. A few years ago everybody was trumpeting New Zealand's success with deficit fighting. As they downsized from 1985 to 1992 they had no economic growth, while the rest of the developed countries grew 20%. Unemployment doubled. Hospitals closed and waiting for surgery increased. As detailed by Jane Kelsey's book, Economic Fundamentalism, they experienced a seven-year recession. They cut their deficit all right, and they also cut their own throats.

Moody's Investors Service observed that the restructuring process had been long, "tortuous, and quite painful." That's Moody's Investors, not me. The Economist magazine noted that New Zealand had among the largest "increases in income inequalities" among its citizens.

It was New Zealand type policies which savaged the German economy in the 1930s and made the German people desperate enough to elect Hitler.

If it wasn't for the extraordinary boom in exports the last few years, we would still be in the recession which started in 1989. Without all the layoffs at all levels of

government, we would not have had a jobless recovery. Furthermore, our government balance sheets would be in much better shape.

Myth 6: Our workers are overpaid, lazy and uncompetitive in the global market. Our exports are booming.

Myth 7: If we take wage cuts, we will prosper. For generations we have raised our standard of living through technological and managerial advances. Those who focus on ways to cut wages and to outsource are not increasing our wealth. They are simply practising the pre-Christmas Eve Ebenezer Scrooge philosophy of management: transfer as much income from the worker to the employer.

I'm sorry there won't be time for questions, but I don't know the answers.

Conclusion: The single best method of reducing the deficit, improving employment and reducing government expenditures is to shorten the workweek. This strategy would have more benefits than all the other government measures combined. A New Zealand style of restructuring makes the recovery jobless, slows growth, reduces consumer confidence and reduces the quality of life.

I want to emphasize, again and again, what we're talking about especially is that if a recession hits us we are defenceless. There are no reserves left.

In the past seven years, in response to the deficit, several provincial governments have believed that they have had no alternative but to close 8,500 hospital beds, lay off thousands of trained professional health care workers, close junior kindergarten in some jurisdictions etc. These tough choices could have been averted if we had implemented some of the myriads of methods of reducing the average workweek.

We know that this government and previous governments have been trying to do the right thing. What we're saying is that if they had made a paradigm shift they wouldn't have had to make these tough cuts they have been and are making.

In a province founded by and still populated by a remarkably spiritual and idealistic people, surely everyone would agree that sharing our work is an expression of that ultimate law: Do unto others. They would say that we should shorten the workweek because it is unjust for the impact of economic slowdowns to fall almost exclusively on a small percentage of people who are laid off or denying our young people a job.

The alignment of the budgetary stars is in your favour. The government is currently preparing to make fundamental changes to the Employment Standards Act. The changes we have advocated will repair provincial finances without the kinds of cuts that have occurred in the past seven years. Those changes will also prevent such damage in the future, and that's the key thing.

We urge you to send a representative to see Jeremy Rifkin on February 25, a world-renowned expert. You've got to send one member of your group to see him. We urge you to talk to the author and economist David Foot here in Toronto. We urge you to consult with Bruce Little from the Globe and Mail.

Crunch the numbers. Consult with Arthur Donner, one of the world's foremost experts on redistributing the workweek. Like so many other great Canadian academics, some day some other nation will probably give him a national award. He has headed two commissioned reports, one in 1987 here in Ontario and one in 1994 for the federal government. Please examine his reports. We've got a few suggestions in the appendices here, but the information is there.

Crunch the numbers. Show Queen's Park the wonderful effect a shortened workweek would have on our budget, health, education and crime costs. There are no significant risks to shortening the workweek; there are all sorts of risks if you don't. The appalling, nightmarish ghettos of people who are denied jobs, and youth and native unemployment, are the stuff that radical politics are made of.

This is a government, this is a people and this is a province not afraid to break traditions. It's time that we break a harmful tradition: the static workweek. For our children, our nieces and nephews, for everyone, we should implement this as a better way to deal with recessions, and before the next recession.

Thank you for the opportunity for making the presentation here, and before I take questions — I see there's no time left — I'd like to point out that we've included some appendices to examine in depth some of the ideas about the economy and how to facilitate a shorter workweek. I'll end my presentation with one of the questions and answers from the appendices. The question is, are there any employment problems that a reduced workweek would not contribute to? The answer, I'm afraid, is yes. There seems to be no help for you folks, the politicians, our public servants. You're workaholics. The proof of that is you're here listening to me tonight.

The Chair: Thank you very much for that presentation. We began our day at 9 this morning, so at the time of pre-budget consultations you're quite right. You have used your 30 minutes and we do appreciate your coming in and presenting your views. I can assure you they are unique. We appreciate that, because it's those kinds of views that make you think. That's a very important part of the process. Thank you very much for coming in.

Mr Polito: No one else was able to come from our group because they're all busy working.

The Chair: I don't know of any relationship other than father and daughter where you could refer to your partner as a prop. With that, our committee stands adjourned until 10 o'clock Wednesday next.

The committee adjourned at 1757.

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Substitutions present / Membres remplaçants présents:
Mrs Lillian Ross (Hamilton West/ -Ouest PC) for Mr Ford

Clerk / Greffier: Mr Franco Carrozza

Staff / Personnel: Ms Alison Drummond, research officer, Legislative Research Service

CONTENTS

Thursday 13 February 1997

F-28

F-28

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Legislative Assembly of Ontario

First Session, 36th Parliament

Assemblée législative de l'Ontario

Première session, 36e législature

Official Report of Debates (Hansard)

Wednesday 19 February 1997

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Mercredi 19 février 1997

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday 19 February 1997

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Mercredi 19 février 1997

The committee met at 1002 in committee room 1.

PRE-BUDGET CONSULTATIONS

The Chair (Mr Ted Chudleigh): Welcome to the second week of the public hearings in the standing committee on finance and economic affairs.

ONTARIO MINING ASSOCIATION

The Chair: This morning we welcome the Ontario Mining Association, Mr Patrick Reid and Mr Peter McBride, no strangers to this committee. Gentlemen, welcome back. We have half an hour to spend together, and if you'd like to use up the first part of that time with a presentation, we will fill in the rest with questions. Your questions will begin with the opposition.

Mr Patrick Reid: Thank you, Mr Chairman. Always a pleasure to be back here. I'm not going to read our submission. I will touch on some highlights, but I just want to share with you what I'm doing today. This morning I had breakfast, me and 70 or 80 other people, with the ambassador for Mexico, and this afternoon at lunchtime I am attending a luncheon put on by the Canadian Indonesian Federation.

I guess the point I want to make is if you don't believe we're in a global economy and there's global competition and everybody is out there beating the drums for investment and industry and economic development in their countries, all you have to do is look at somebody's schedule during the week and see how much effort other countries, nations around the globe, are putting into attracting investment and the subsequent economic development.

Because we have been here before and most of you have been on this committee, you already know that Ontario's mining industry is one of the most advanced, knowledge-based, high-tech industries. More than 85% of the mining workforce uses advanced technology: very large in computers, remote control sensing, more than $40 million invested annually in pure scientific research and development. About 1,000 people, or 5% of the workforce, are employed in engineering and scientific research and development positions. We're also a predominantly Canadian-owned business, and the foreign exchange that we earn from our industry helps Canada's balance of payments.

We are also probably the highest value-added industry, adding value of about $184,000 per employee, almost twice the level of the manufacturing sector as a whole. We are a serious player and contributor to Ontario's economy.

As part of your package, you have received the latest edition of the Economic and Fiscal Contribution of the Mining Industry in Ontario. You'll see in there a number of charts and information that will give you a pretty good economic snapshot of the Ontario mining industry.

We represent 45 member companies, including the producing mines and suppliers of equipment and services in Ontario. A lot of these same companies are global players, both in terms of the mining companies themselves and the suppliers of equipment and services. Ontario, and Toronto particularly, has become the mining finance capital of the world. I was just talking to someone yesterday who has some mines in South America and in Africa, and they're setting up shop in Toronto because this is the place where they can access capital to develop these mines.

We contribute about $6.6 billion in personal and corporate income and over 100,000 jobs in the primary industry due to the economic multiplier. One fact you might be particularly interested in is that direct taxes paid to three levels of government amount to $377 million, representing 58% of the industry's pre-tax profits. A good part of this goes, or comes, to Queen's Park, about $212 million in direct taxes. It also pays about $47 million annually in property tax assessments to municipalities, and there are about 50 towns and cities that have a significant part of their economic vitality related to mining. Those are in both northern and southern Ontario.

The mining industry is generally supportive of the many actions taken by the current government in terms of improving the competitiveness and productivity of industry generally in Ontario. The move from a command economy, to proscriptive instead of prescriptive regulations, is very welcome in the mining industry. At both the federal and the provincial levels we still have our deficits and our debts are still too large, and they still must be paid down to improve Canada's and Ontario's long-range economic performance. We also applaud the recent Mining Act improvements that you're no doubt aware of.

Now we'd like to talk about two particular concerns that we have that are related, first of all, to municipal governments. There has been not so much a shell game, but a downloading from the federal government to the provincial government to the municipal government. This, as most of you know, because you've been around long enough, is not something new that was just invented. It's been going on for some years. The Ontario government has passed legislation allowing amalgamations, particularly in northern and southern rural areas, and we're concerned about what effect this may have on municipal taxes as they relate obviously to mining operations.

We already have situations with mining companies where the boundaries of some municipalities have been expanded to take in mining operations, and the mining facilities receive no services but they are taxed municipally. In most cases we haven't strongly objected to this, but we are concerned that these amalgamations may be being done strictly for the purpose of taking in mining operations or natural gas pipelines or things like that without necessarily municipalities looking at what it is they should be doing and what services they should be providing to their citizens.

1010

Another concern is the fact that some municipalities are requesting that underground mining facilities be taxed. Some of you, I presume, may have been down a mine, and you'll know that primarily what is underground are shafts and tunnels, both to mine the ore and get it out of the ground. The only two facilities that are generally underground are lunch rooms and refuge stations, which are put down there obviously for the convenience of the workers but also to act as refuge stations in case of fire, and they are one and the same.

The other thing that is underground, other than shafts and tunnels, are machine shops. There is heavy equipment underground and to bring that equipment up to the surface for maintenance and servicing would be an extremely time-consuming and costly operation, so there are machine shops underground. There are some municipalities, I gather, that think the mining industry is moving shops and offices underground to escape surface taxation. Nothing could be further from the truth.

We're concerned that the provincial government's efforts to keep tax levels either going down or at the level they are at may be stymied if municipalities all of a sudden start increasing taxes at the other end. If this happens in terms of the mining industry, obviously that will not improve our competitiveness.

Our other major concern is uncompetitive electricity rates. Uncompetitive electricity rates are a weak link in the government's plans and efforts to market this province and attract job-creating investment dollars. In our industry, 10% to 20% of our costs can be for the electrical bill that they receive. The two largest industrial customers of Hydro are two mining companies. We're suffering a competitive disadvantage relative to our competitors in other parts of the country. Only Nova Scotia has higher electricity rates per kilowatt than Ontario, and you'll find all this in the brief. The Macdonald commission recommended in A Framework for Competition that there be privatization and that we move towards an open, competitive electrical energy market. We support an open, competitive electrical market in Ontario and we hope that the government will move on this very quickly.

The last page or two of our brief talks about what we contribute in terms of workplace health and safety, skills training, pollution prevention, mineral exploration and the industrial rates that we pay. Capital projects are also mentioned on the last paragraph.

I'm going to end just by reiterating that we hope this committee will recommend that underground workings of mines not be taxable for municipal or provincial purposes and that we urge you to begin the introduction of competition and customer choice into the province's electricity market. Thank you for the opportunity to speak to you, and we'd be glad to answer any questions, Mr Chairman.

The Chair: Thank you very much, Mr Reid. We'll open a five-minute round, five minutes each, with the official opposition.

Mr Monte Kwinter (Wilson Heights): Thank you very much. As always, it's a pleasure to have you here. I'd just like to talk on a theme that I talk about every year that the mining sector comes here. As you know, I have some involvement in the mining industry, and it seems to me that everybody says the geology in Ontario or in Canada is as good as any in the world, yet there's a relatively low level of exploration taking place here. How do you account for that?

Mr Reid: Exploration was up to about $160 million last year, I believe it was, up from $40 million or $50 million in the past few years. There are two or three reasons, I guess: one has been uncompetitive taxation; overregulation; and the fact that Canada generally became seen as a politically risky country to do business in. Interestingly enough, after the Windy Craggy situation in British Columbia, a lot of people left Ontario and Canada and went somewhere else because of the arbitrariness basically of that confiscation of mineral properties.

The other answer is, as I mentioned, a lot of other countries around the world, particularly Third World countries, have changed their mining laws and their investment laws, as you would probably be the first to know, Mr Kwinter, to welcome investment in their natural resource sector. They've changed the laws to provide security of title and tenure, they've opened up their laws to allow profits to be repatriated, and there's just an awful lot of competition out there.

I think, frankly, things are improving in Ontario. We've got five or six prospective mines that hopefully, if the price of metals stays up, will open, and there is a lot more exploration going on in Ontario than there was. We still have high taxation rates though, but we still have great geology.

Mr Kwinter: Also, I'm quite interested in your comments about the uncompetitiveness of our hydro. Ontario has always really prided itself on having, as one of its competitive advantages, its hydro supply and its hydro rates. I find it quite surprising to find that only Nova Scotia has higher rates. I'm interested in your comment about the chairman of Hydro when you say even he is advocating things. I think that's a contradiction. He was put in there to literally privatize Hydro, so I don't think he is the stumbling block. I had a conversation with him not too long ago. I think he feels the government isn't moving fast enough. Do you feel there is, from your discussions with the people at the ministry, a chance that they will become more competitive?

Mr Reid: Perhaps I could ask Mr McBride, my colleague who spends a good part of his time on energy matters, to respond to that.

Mr Peter McBride: We're part of a group called the Stakeholders Alliance, which I think is one of the most incredible coalitions I've ever seen. It involves big electricity customers like us in the mining sector, small

electricity customers represented by the Canadian Federation of Independent Business, independent power producers through IPPSO and the Municipal Electric Association and its members. So you've got consumers, power producers and distributors all saying — and I want to separate, I think, privatization from competition. I don't think they're interchangeable in electricity markets. But I think rates can be improved. Competition can lower rates. We've seen that happen elsewhere.

I think what we're looking for is a message. What Bill Farlinger at Hydro is looking for is a clear signal from government to get on with the job. The last time the Stakeholders Alliance met with him, I think he was feeling a little bit frustrated that the green light isn't shining at Queen's Park.

Mr Kwinter: That's exactly the message I got from him in my conversation with him about 10 days ago.

The rehabilitation of mines: Has there been any movement in the amount of money that you've got to put up front to make sure that when you're through with the mine, the tailings are put back or whatever happens? I know that was a bone of contention, that that was in fact stifling the ability of some of the mines to function, because of the high cost of providing that kind of financial backup. Is that still an issue?

1020

Mr Reid: Yes. Financial assurances are required under the Mining Act, and we are still in negotiations with the Ministry of Northern Development and Mines and the treasury, who's represented here today behind us, on amounts and different types of financial assurance instruments. I think we're making progress. At the moment I don't think we see it as onerous, but we haven't fleshed out the whole regime yet.

If I may, while I think of it, I believe you also got this booklet in your package. There is an article in here about Elliot Lake, which some of you will recall was related to Ontario Hydro as well, the uranium capital of the world for a while. Both those mines are shut down, and both Rio Algom and Denison have done an absolutely superlative job in reclaiming the tailings and shutting those mines down. In fact, they're winning awards for the reclamation they have done. Many environmental groups have been up there to see what they have done and have been quite impressed.

We in Canada and in Ontario have the ability and the knowledge to safely and environmentally soundly shut down mines, just as you're pointing out. We just don't want to be crippled with upfront requirements before we can get the mine open and producing.

The Chair: We'll move to the third party.

Mr Tony Martin (Sault Ste Marie): It's good to have you here this morning. I come from northern Ontario. My constituency is Sault Ste Marie. Of course, Algoma Steel is dependent very much on you being able to do your job in a cost-effective and efficient manner so they can get their raw material. I grew up in Wawa, which is a mining community, so I have some empathy and sympathy and some knowledge of some of the challenges you face. Certainly this morning you raise very clearly two of them, and that's where I want to ask some questions.

Before I do that, I want to say it's also good that you come and share with the folks here, who perhaps don't fully appreciate sometimes the contribution that the economy of northern Ontario makes to the whole economy of the province, how intricately connected we are and how what we produce in the north grows exponentially in terms of value added as it comes south. When we ask sometimes for some consideration and for some return, it's not without some basis in terms of what we give. It's good that you make the case. I'm not always able to because I'm limited in my knowledge and experience in that respect.

Today you raise two questions that I think are very important. One of them is the question of taxation and the impact of the recent push to amalgamation and the downloading of costs that previously were carried by the provincial government. Up to now you've talked about the chase that's on for municipalities to try and get you into their web because they have to provide services as well. Perhaps you could expand a little bit more on your concern re the recent initiatives of the government, how you see that impacting on you and what it is that you could suggest the government do to take some of the pressure off.

Mr Reid: As I said, the Municipal Act was amended to allow municipalities to amalgamate — we're primarily talking northern Ontario, but also southern Ontario — and frankly I think that's probably a good thing, but I guess it gets to be what your motivation is.

We're just concerned that we see a lot of municipal boundaries being drawn that wouldn't make geographic or service-centred sense from our point of view. We see them being drawn to take in taxable entities such as mines, natural gas installations or whatever. We're concerned obviously that the taxes will rise for the mining company that's located in that geographic area that is not really going to receive any services. In fact, the employees may not even be living in or receiving any services either from this new municipal area.

Mr Martin: You also raise the question of uncompetitive electricity rates, and I think that's certainly another big issue for any big company, particularly in northern Ontario where your options are limited. You're suggesting here moving to a more private-sector-oriented delivery of electricity, actually, that development of electricity might provide you with a better competitive advantage.

Just the other day I sat and talked with Sandy Adams who's the CAO at Algoma Steel now. We have a privately delivered source of electricity in our area, Great Lakes Power, owned by Brascan. In that instance you would think there would be some advantage, and there is some small advantage. They try to be competitive with Ontario Hydro or just below. This is a private sector operator who has access to some pretty reasonable sources of electricity in terms of cost, yet they're still way above what Algoma feels is necessary for them to get a reasonable return on their investment. Algoma figures that Great Lakes is probably pulling in about a 100% profit margin on what they're selling them. They were having a meeting in a week or two to try and negotiate that.

The question I would have is, if we did in fact move to a private-sector-delivered system, what's to guarantee

us that we would get the kind of advantage that you're suggesting, given that experience? Also, why is it that in a situation where we already have that conglomeration, we can't find a way for those companies to work together so that everybody wins in the end? Outfits like Algoma and St Marys and Agawa in our community might be able to take advantage of that and actually sell their product at a better rate and maybe even attract some further industry to our neck of the woods because of that. It's not happening and perhaps you can explain to me why.

Mr McBride: There are two pieces of legislation that are serious barriers to that that really need to be changed. One is the Power Corporation Act and the other is the municipal utilities act. People should not be fearful of competition in the electricity market. And again, it doesn't have to be privatization. I think we're looking for competition.

If one looks at the natural gas evolution to a marketplace, shall we say, from a total monopoly, which started in 1985, it has been evolutionary. It's been regulated and monitored. The National Energy Board did a study that's just been issued that basically shows that both consumers and producers benefitted from an evolution to an open marketplace. The reality, though, is that if Ontario doesn't get in line with what's happening south of the border and with neighbouring provinces, we're going to be left behind. One thing I'd like to emphasize too is, Ontario Hydro is a monopoly in an age when it's inefficient.

The Chair: We'll move to the government party. Mr Ford, did you have a question?

Mr Douglas B. Ford (Etobicoke-Humber): Yes. Good morning, gentlemen, and welcome. I'm sort of green at this business of mining. I've been down in gold mines, coal mines and everything else, but I'd like to know the inner workings of these types of things when it comes to the political situation in such countries as Chile or places like that. What is the difference between operating in Ontario and operating in one of these other countries, say Chile or Indonesia? I hear in Indonesia Bre-X and all this type of thing. Is there conflict in these other areas politically and everything else, and is it a risky business to function in these other countries or in Ontario, from an investment point of view?

Mr Reid: There's no simple answer. Every situation, every country is different. Let me share with you an anecdote. As a former member of this Legislature used to say, if it isn't true it should be. The apocryphal story that used to go around a few years ago was that when a mining guy goes to Chile and he's met at the airport by the Chilean minister of mines, he says: "I'm here to help you. What do you need?" In Ontario you walk into a government office and say, "I want to start a mine," and they hand you two volumes of books with all the regulations and rules in it and say, "After you've read all that stuff, come back and I'll see if I can answer any questions you've got." There is a more welcoming attitude in a lot of these places than there is in Ontario and Canada, although again I hasten to say I think it's improved.

There always is political risk. By the way, you can get political risk insurance. There are companies out there which every year come up with a list of countries that are — you know, they rate them. A few years ago Canada was fifth or sixth on the list, and that was largely because of the Windy Craggy situation in British Columbia.

1030

Mr Ford: I always concern myself with the rules and regulations of mining here because I believe there are a few hundred years of resources still left in either Ontario or Canada, whatever way you want to look at it. I think these resources should be developed so that we can work on paying these debts we seem to be encumbered with all the time through social benefits and that type of thing, but we should have a little freer hand to let people explore, to let people mine, and have certain rules and regulations about the cleanup after.

That is my concern. While we have these resources — or do we leave it in the ground for the next generation or the generation after? This is maybe what's happening now; we're not giving these permits out so readily. Maybe I'm wrong. Like I said, I'm green in this business.

Mr Jim Brown (Scarborough West): I have a little bit of background in the mining business and I share with Mr Kwinter that we've got great rock in Ontario, we've got great geology, but a lot of the money doesn't come here; it goes to places perhaps less risky such as Kazakhkstan —

Mr Kwinter: Kurdistan.

Mr Jim Brown: Kurdistan. What can we do to get more of it here? I know that flow-through shares were still being used in Quebec to encourage money to be put into the ground in Quebec. The federal government used to have it and of course abandoned it. Quebec kept it; I think they've still got it. What are your views on flow-through for Ontario and what more can we do to get money into the ground in Ontario?

Mr Reid: Flow-through shares were very popular; however, they became maybe too popular. It cost the treasuries of the federal government and the provincial government too much, which I gather is the reason they were cut back. That might help.

As Mr Ford said, there are two basic reasons Ontario isn't as attractive as it might be. One is the sheer amount of legislation and regulation relating to the mining industry. We're probably the most regulated industry, perhaps not as much as the chemical but pretty close, and a lot of it is unnecessary in our view. But that's changing and that's improving.

The other thing, frankly, is the tax levels. In our submission we said that 58% goes to one level of government or the other. A lot of other areas, countries, have a less onerous tax regime. You'll hear this; it's not new. We've got to get the tax rate down to compete with a lot of other jurisdictions.

The Chair: Thank you very much. I appreciate the Ontario Mining Association taking the time to make its presentation to us. It's very important that we hear from this element of our economy.

ONTARIO HOME BUILDERS' ASSOCIATION

The Chair: We now welcome the Ontario Home Builders' Association, Mr Ron Sarginson and Mr Al McLean. Welcome to the committee, gentleman.

Mr Ron Sarginson: You must bear with me. I have a Calgary cold which I just inherited a few days ago.

The Chair: They're tenacious this year.

Mr Sarginson: I know. Somebody said it goes right to the bone, and believe me, it does.

Good morning. My name is Ron Sarginson. I am president of the Ontario Home Builders' Association and a house designer in the Ottawa area. With me is Al McLean. Al is the first vice-president of OHBA and a developer in St Marys.

For those of you who are not familiar with OHBA, we are a volunteer association of companies in the home building industry. We have approximately 3,400 member companies in 34 locals around the province.

I understand that today we have half an hour. Our prepared remarks are relatively brief, so there will be plenty of time for questions. I am going to give you a general overview of the housing industry. I hope my comments will provide some context for the statistics you see reported in the newspapers. Then I will turn things over to Al. He will talk about some of the implications of what I have described. He will also outline some specific recommendations for the budget.

The numbers that are commonly reported in the press these days are all very encouraging, and indeed, our members are more optimistic about the year ahead of them than they have been at any point in the 1990s. But there is another story lurking behind these numbers. I am one who prefers to see a glass half full rather than half empty, but responsible policymaking requires vigilance. It is nice to dwell on the good news, but we need to pay just as much attention to what is not happening.

I would like to direct your attention to the graphs that have been attached at the back of our remarks. If you look at these, you will note that 1996 was pretty much an average year for the 1990s. In fact, it was a little below average. The next two graphs split out single detached housing and all other types. These begin to tell the story of what is going on.

Let's talk about the single detached housing market first. In the autumn of 1989, it fell sharply in the Toronto area. The rest of Ontario followed in 1990. Since then, this market has been pretty stable. The only exception was in 1995, and 1995 was the worst year for housing since the end of the Second World War. The recovery in 1996 was welcome news, but it only brought us back to the average level.

Let's look at what was happening in the multiple-family market during the same period. It fell in two stages. The infusion of non-profit units delayed the first decline by a year or so until 1991. Then there was another sharp drop in 1993. This occurred as the non-profit building program began to wind down. Since then, the multiple-family market has been stable.

The result of these trends is very important. Consumer demand and industry supply have not kept pace with real housing needs. Pent-up demand has been developing for several years now. At current levels, pent-up demand represents over two years worth of production. That equals over 100,000 households who have not had their housing needs met. In fact, it equals a lot more than 100,000 families. The 100,000 figure represents the houses and apartments that need to be built. Meanwhile, the families or households creating this pent-up demand are living somewhere. So every house that needs to be built represents two things: one is a family or household that does not have its own home; the other is the family that is accommodating the first one. This 100,000-unit figure also represents something else. It equals 300,000 person-years of employment in the industry.

I guess I'll turn things over to Al, who will talk about the implications of all this.

Mr Al McLean: Good morning. Ron has given you a pretty good overview of the state of housing in Ontario. To put it in a nutshell, we could say that 1996 was an average year, and average is not good enough. There is one more figure you need to complete the picture. In most cities and towns in Ontario, over 35% of renters can afford to buy a home. This figure is important for a number of reasons, but the main one is that these renters are occupying the only source of new rental supply we will have in Ontario for the rest of the 1990s.

If people who require low-cost rental accommodation are able to get the housing they need, it will be for one reason: Current renters decide to buy a home and leave their apartment. The reason for this is that very little additional private sector rental stock will come on the market for several years. If all the necessary changes affecting rental housing went into effect today, it would take investors two or three years to prepare business plans, arrange financing, get approvals and complete construction.

1040

So the key housing policy issue that faces this government is determining what it takes to get renters out of their apartments. It is obvious that a lot of variables enter into a lifestyle choice as important as this one, but the factor the government can control, at least to a certain extent, is an important one: It is the economic comparison between renting and owning a home.

Our message today is that government can do a lot to make ownership more attractive by lowering the costs that are imposed on housing through taxes and regulation. Every time you lower the cost of a house by $1,000, you make housing affordable to thousands of additional families, and you make home ownership even more attractive to renters who can already afford to buy.

Can $1,000 make a difference? If you could always add another $1,000 to the price of a home, everyone would be living in million-dollar mansions. When you are talking about marginal effects, people who are on the threshold, $1,000 does make a difference.

The government has already taken several important steps in this direction. The planning and approvals process has been streamlined, at least on paper. Some building code standards have been returned to cost-effective levels. Other changes to the building code have been proposed. Restrictions on the use of development charges were introduced last fall, and the government is actively supporting acceptance of alternative development standards that help lower the cost of subdivisions. All of these changes should be supported by anyone who is concerned about the state of housing in Ontario, and even more change should be encouraged.

Now I would like to make some specific recommendations:

First, our membership strongly supports the government's agenda of fiscal restraint and deficit reduction. We survey our members on a regular basis and support for deficit reduction has remained consistent. So the message is to stay the course.

Second, the property tax assessment of rental housing should be made more equitable. This would lower rents and could work against the strategy of making ownership economically attractive, but a long-term housing strategy requires construction of more rental stock. This inequity accounts for a third of the gap between economic and market rents, so it is very important that it be eliminated.

Third, the use of development charges to finance school construction should be ended. This practice was introduced in 1989 to offset a reduction in provincial grants. The current government understands the negative impact of development charges and has stated that residential property taxes should not be used to finance education. Let me suggest that this reasoning leads to one conclusion regarding education development charges: Their use should be discontinued.

Fourth, the GST: This tax distorts between new and resale homes and between ownership and rental. As far as housing is concerned, it is a fundamentally flawed tax. Our recommendation here is twofold: (1) the government of Ontario should strongly lobby for reductions in the rate of the GST with the objective of eventually eliminating the tax, and (2) the government of Ontario should publicly and clearly state that it will not harmonize its retail sales tax with the GST under any circumstances.

To sum up, there are a lot of positive signs in the market but the industry is still depressed and clearly underperforming. The government's agenda of easing the tax and regulatory burden on housing is vitally important and a key to encouraging renters who can afford ownership to buy a home. This strategy will produce the only source of rental units for the rest of the 1990s and it will help create thousands of jobs in the housing construction industry.

Finally, the home building industry strongly commends the government on its handling of the economy and the progress it has made towards eliminating the deficit. Thank you for your attention.

Mr Martin: I apologize that I missed the first of your presentation, but I don't think I missed the gist of it. You certainly make some valid points. However, in listening to you I can't help but think there's a hole in this, a piece missing.

I would say as humbly as I can that to suggest that the reason people aren't buying homes is because it's somehow more appealing to them to stay in a rental situation or because there were more non-profit rental units coming on the market seems to me to be a bit narrow in terms of an analysis of what was happening and is happening.

It seems to me, and you can tell me if I'm wrong, that two of the reasons people have bought homes from time to time over the last few years is, number one, the fact that interest rates have gone down. When interest rates go down, I know for myself personally I'm more likely to go out there and look at the possibility of maybe making some purchases, and I will do that. Number two is if I have a job that's secure, if I know it will be there for a while and I'll be able to make the payments. There are two things that are happening out there right now that sort of cloud that picture for me.

I would suggest that with interest rates where they are and some of the initiatives of the federal government, for example, allowing people a 5% down payment in some instances as opposed to 10%, would be an incentive, but what's happened in this province by way of a dampening of the domestic market for anything is the cutbacks in government spending and the jobs that were out there in the government sector, which are significant. In my own community it's well over 1,000 jobs now, good-paying jobs, secure jobs gone. Have you factored that into the equation you've presented here this morning?

I know you've given the government kudos for cutting back, but it's my read of it that if anything has slowed what could potentially be really a booming housing market as opposed to, as you say here, one that is not booming, it is the cutbacks actually by the provincial government for the purpose of giving this tax break. Could you comment on that.

Mr McLean: That's a fairly involved question. I'd like to comment, first of all, that you're entirely right. The low interest rates prevalent today are certainly having a positive impact on the housing market. The federal government's initiatives in terms of the 5% down have in fact allowed nearly 500,000 Canadian families to purchase a home who might not otherwise have done so over the last few years, and the RRSP initiative is also good.

We feel the primary item lacking, and you've hit on it, has been consumer confidence. This has been a very long-term down trend in confidence which has only recently turned upwards and we anticipate that will be positive for the housing market. We think it's clear the consumer is more confident in the fiscal management of this government and in their future under this government.

1050

Mr Martin: You mention that the "industry is still depressed and clearly underperforming." I don't know anybody, to be frank with you, out there who is renting or living in a home that is not adequate to their need, for example, three or four kids in a two-bedroom or a three-bedroom, who wouldn't like to get something that would be a bit more spacious or whatever. The right factors have to be in place.

I know from talking to the folks on my street and in my community that because of the very negative impact on their life and on the potential for them re some security into the future, this issue of where the jobs are going to be, not only for themselves but for their children and their ability to even pay for the education of the children, is causing them a problem in terms of buying big-ticket items, and certainly a house is a big-ticket item.

There still seems to be, for me anyway, a bit of a contradiction in your support for the government in its cost cutting to produce the tax break and the impact it's having on the economy out there. Given the level of interest rates and some of the other factors I've mentioned, it should be booming at this particular point in

time. I don't know how you can put those together and suggest that there is an upturn or a positive climate. It's not what I'm hearing and feeling and seeing in my own community.

Mr McLean: In terms of the 100,000 figure — and I think you're very fortunate if you don't know people who perhaps have adult children at home who in the past would have been out on their own — if we turn to the graphs on page 6, we will see the urban housing starts, the top graph, and although we don't have the overlay, and I apologize for that, if we had an overlay over that, we would have seen a population growth line going through there that would start in 1987 somewhere just under the 60,000 and would now be up in the sort of 65,000 range.

This is the sort of demographic demand for housing in the province. We overbuilt in the late 1980s. That overbuilding was taken up by around 1991 and on into 1992, and since 1992 we've had a continuing disparity between the units going on the market, being built in Ontario, and the population which would like to be housed in those units.

That was one part of your question and I'm afraid I've —

Mr Martin: How can you not see the contradiction in what this government has done singlehandedly to depress a market that could be exciting and booming at this point in time with your support of those initiatives and the impact it is having, I know, on your industry, by your own admission to some degree here in your presentation, which is that the "industry is still depressed and clearly underperforming"?

Mr McLean: The industry is underperforming. As we said earlier, it's a question of confidence. We believe that the proper fiscal management of the economy and the reduction in taxes and levies which have been proposed or which we are proposing will increase that confidence in the consumer and lead to a better housing market.

Mr E.J. Douglas Rollins (Quinte): Thanks, gentlemen, for coming in. I believe that in the last year we've seen some 20% or 25% growth depending on how you want to multiply those figures out. It takes us back to the forecasts of 1992, where we could reach those this year if the forecasts are fulfilled.

It's funny that we continually get this tax cut situation, yet the more dollars a person has in their pockets, the more they're apt to spend, and when they spend that money, they're more apt to spend it on big-ticket items, and there's no question interest helps.

One of the things I would point out to you is that this government did a land transfer tax last year to encourage people, and up until this year 9,370 people have applied for that land transfer tax to support them in buying that first house. Was that not one of the big compliments for this government, what it's done to encourage those housing starts?

Mr Sarginson: Certainly, that was a great initiative and it really did give a kickstart to the industry. I understand it's coming to an end at the end of March. A lot of people did take advantage of it; it was a great incentive. I know it's being closed in March and I think we are going to support the government in doing so because the money has to come from somewhere in the end. Again, we compliment the government on providing this initiative. We didn't ask for it; it's a great thing. Thank you very much. This industry of ours is against taxation and regulation, and any little incentive that we can come up with would be great, but I think we'll agree that it's time to sunset it.

Mr Joseph Spina (Brampton North): Thank you, gentlemen, for your perspective on budget issues. Just quickly, you mentioned some positive things that we have done in terms of our policies and regulations and so on: the development charges, changes to rent control, changes to education and the property tax and so on. These items were all positive, in your opinion, towards giving an incentive for more housing development; also between the land transfer tax and some of the development charges changes that we can run.

I just want to correct a little statement you made, and that is, if it "reduces" the cost of housing by $1,000, that's a big incentive. I think that's what you meant to say, because I think you said "if you add $1,000." Anyway, that's okay. I just wanted to clarify that.

In all fairness to Mr Martin's comment, the housing market, you said, dried up in 1991-92 because of the oversupply and basically the heated market in 1987 to 1989. If this province lagged two years behind the other provinces in terms of the recovery from the early 1990s recession, if the policies that we are implementing now would have been put into place in 1991-92, would you have seen less of a dip in 1994 and 1995, particularly the 1995 market, and perhaps by this time we might have been on a more even keel or a more consistent development market? That's the first part.

The last part is, a lot of the construction that was done in 1991 to 1993, for the most part, was it not government-funded construction? I think that was the distinction that maybe Mr Martin was concerned about. He's saying that government cuts affected jobs in that way because now there is far less government-funded construction, as opposed to creating a positive environment for housing construction in the private sector, which is what we're trying to do.

Mr Sarginson: So 1991-1993, you're referring to the subsidized housing?

Mr Spina: Yes.

Mr Sarginson: Certainly the program cost the taxpayer a lot of money and the government wanted to get out of the business of housing and put it back into our hands, which is good to see. It was an expensive program for all of those here in the province.

To answer your first question, would it have helped? Of course it would have helped but it wasn't the only — at that time, I don't know. I'm just saying that any little initiative the government can do at any point in time helps. It probably would have, but maybe it's just one of those things.

Mr Spina: It's a little speculative.

Mr Sarginson: Yes.

Mr Gerry Phillips (Scarborough-Agincourt): I was curious about one of your comments, and I found this very helpful, by the way. You indicated that your industry feels that very little additional private sector rental

stock will be on the market for several years. Is that as a result of talking to your membership? How did you reach that conclusion?

Mr McLean: If I could speak to that, there has been a long-term drought of private sector rental accommodation going on the market. We believe, talking to our members, that the primary reason for this is the rent control legislation that has been in effect. When we speak of confidence, it isn't just consumer confidence; it's also builder and developer confidence. There was a lack of confidence in the security of investment in investing in private sector rental accommodation that was rent controlled.

1100

The changes that have been made in the rent control legislation, the changes that we are proposing and that have been made, and more changes that we hope may be made in the property tax assessment and the unfair taxation of apartments — in some municipalities we see four to five times as high a taxation rate for apartments as for private homes. If we can effect these changes, they will encourage builders and developers to come back on the market.

We mentioned economic rent versus market rent. We have to close that gap a little.

However, even if all these things are in place, even assuming that the work that has been done so far and the work that is still to come provides a proper framework for building, it still takes a number of years. If you have a piece of property, there may be rezoning; there is certainly design; there is financing; there is construction; so we see a minimum of two to three years before these initiatives could have a significant impact on the private rental market.

Mr Kwinter: In your statistics, I assume that when you say "Toronto" you're talking about the GTA, as far as housing starts are concerned?

Mr McLean: Yes.

Mr Kwinter: If you take a look at what's happening in the resale market today, I assume in the GTA, although certainly in Metro Toronto, it is red hot. There are articles virtually every day talking about what is happening. How is that impacting? Is that a negative or is that a positive for the house building industry in this area?

Mr Sarginson: I can say that some of our builders are competing with themselves lately. The houses that they sold in the past, they're fighting against the resales. It's having a negative effect, yes, because we are competing with the resale.

I'm from Ottawa. You're talking about the Toronto area. In Ottawa the resale market is very slow. New construction is increasingly coming on stream, but in both areas builders are competing with themselves. By that I mean the builders are competing with their own product coming on stream, with the older product selling at a cheaper rate. What we're seeing is more taxation, more regulation coming on stream to the newer product and it's driving the prices up. If you say in Toronto it's a hot market, I'm not aware of that.

Mr McLean: Yes, it is.

Mr Sarginson: Good, I'm glad to hear that, but I know the Ottawa market is very slow.

The Chair: Thank you very much. We appreciate the home builders' association appearing before the committee today, for taking that time.

ONTARIO HOSPITAL ASSOCIATION

The Chair: Our next deputant is the Ontario Hospital Association. We welcome Mr Lind, chair; Mr MacKinnon, president; and Mr Muir, past chair of the Ontario Hospital Association. Welcome to the committee, gentlemen.

Mr John Lind: Good morning. My name is John Lind. I am a trustee of St Marys Memorial Hospital in St Marys and also the chair of the Ontario Hospital Association. With me I have Bob Muir, CEO of the Lake of the Woods District Hospital in Kenora and a past chair of the Ontario Hospital Association, and David MacKinnon, president of the association. I'm going to be asking David to make the presentation and then we will be pleased to answer your questions after that.

Mr David MacKinnon: Thank you very much for the opportunity to speak to the standing committee on behalf of the hospitals of Ontario. We very much appreciate the opportunity.

The message I wish to give today is quite a simple message. It is that the government's current policy towards the restructuring of hospitals and the health system as a whole is flawed and must be fundamentally changed before irreparable damage is done. We believe that unless the changes are made, the people of this province will face reduced access to care and the quality of that care may also be affected. We believe that these two things must not be allowed to happen.

We don't make these statements lightly. They reflect a broad consensus, after the last year or so of working with reductions; a broad consensus both within the hospitals themselves and at the OHA board level. Nor do I make these kinds of comments because hospitals wish to argue for the maintenance of the status quo. On the contrary, as members of this committee will know, in previous years the Ontario Hospital Association has strongly supported hospital restructuring, in large part because the improvements that the physicians and the hospital staff and nurses in hospitals have made make significant restructuring and savings possible. But we argue that this restructuring must be done within a realistic time frame and with adequate upfront investment.

We also want to argue today that the restructuring of the broader health care system must be done in a way that is supported by evidence, and not driven by ideology or abstract visions. Restructuring must recognize the reality of the change that is already happening in the system, and much is happening, and it must build on the successes already achieved, and many successes have already occurred.

I'd like to focus on three key issues in this presentation. The first is that the hospital budget reduction target for 1998-1999 should be achieved through hospital restructuring; that is to say through mergers, consolidations and closures and not by the damaging across-the-board funding reductions that we have seen in each of the last two years.

Second, the current planning and policy directions with respect to the future of the health care system are flawed. We believe we must approach the planning of the system in a better way and in particular based on pragmatic and evidence-based efforts.

Third, and more positively, we believe that, working together, there are some steps that we can suggest that will permit us to do much better than we're doing and that will still permit the government to achieve most, if not all, of its essential fiscal targets. So there is a better way and we would like to describe what that is.

Let me speak first about hospital budget cuts. In November 1995 the government announced a $1.3-billion, three-year funding reduction for Ontario hospitals. The 1996-97 reduction was 5%, or $365 million; the 1997-98 reduction translates into just over 6%, or $435 million, and the proposed 1998-99 reduction is close to 8%, or $507 million.

Through the Savings and Restructuring Act, the ministry also established the Health Services Restructuring Commission, with the mandate to accelerate hospital restructuring. The reason the OHA supported this effort, and this is a key point, is because of its expectation that a large proportion of the required savings to meet the government's fiscal agenda would result from mergers, consolidations and closures, and not across-the-board budget cuts.

As I mentioned earlier, OHA and its members have been and continue to be supportive of restructuring in the hospital sector. Restructuring has been made possible by the successes of hospitals in introducing new technology, drug therapies and innovations in the delivery of patient care. These have led to reductions in lengths of stay, a significant shift in outpatient and ambulatory care, which reduces the need for conventional hospital facilities and for beds and buildings of all types.

Despite these successes, and those successes are dramatic, major problems are emerging in Ontario with respect to the management of the hospital restructuring process. We are, a point we emphasized at our convention last fall, in a situation where one of the largest public sector restructuring projects ever undertaken in Canada — and that is what hospital restructuring in Ontario is — that very large, centrally important project to Ontario, is at risk.

The key problem, as you'll gather from my previous comments, is that the timing of the commission's work does not coincide with budget cuts. Only two final reports have been issued — in Sudbury and Thunder Bay — and the savings in those communities will not be realized immediately. Preliminary reports for Lambton county and Pembroke have also been issued. Reports on the major urban centres of Toronto, London and Ottawa are expected over the next few weeks.

1110

The result of this timetable is that virtually all our hospitals are faced with severe funding reductions before they know the results of the commission's decisions. We believe this makes absolutely no sense. Hospitals are issuing layoff notices and making service reductions only to find out later that perhaps the hospital won't even exist or that it will exist as part of a new corporation or that it will actually be expanding and will have unnecessarily disturbed the lives of many of the people who work in it as a consequence. If one walked down Bay Street and asked the people doing business restructuring in Ontario whether they would make a series of fundamental budget decisions about the businesses they were restructuring and then do the restructuring, they would say, "No, never," but that is in effect what we're trying to do in Ontario in the hospital industry.

We have looked at the effects of the cuts, particularly the impact of the further 7% reduction for 1998-99. We have looked at it with great care and concluded that even with aggressive utilization management, savings from clinical efficiency and significant organizational consolidation, the hospital industry will not be able to achieve the $1.3 billion within the three-year time frame without significantly affecting and reducing access to health care services.

Equally important for the committee to recognize is that hospitals cannot absorb the upfront costs of restructuring, particularly the very significant severance costs, which will run into many millions. We are pleased to hear that the finance minister intends to establish a contingency fund to assist in this area and we expect the hospitals will be able to access this fund.

There are many labour relations issues attached to hospital restructuring, many of them very difficult for the managers dealing with them. Most important of these are the provisions in collective bargaining agreements that prevent hospitals from contracting out indirect patient care services to achieve savings.

This is best illustrated by a recent arbitrator's decision prohibiting Sunnybrook Health Science Centre from contracting out its dietary operations at a potential annual cost saving of $1.3 million because to do so would result in the elimination of 13 jobs. Sunnybrook now has to find those savings elsewhere, quite probably from direct patient care.

I would like to draw the committee's attention to a few other issues. The first of these is the issue of administrative costs in hospitals. The government, in our view, continually misstates the potential for savings hospitals could achieve through talking about things such as administrative efficiencies and reduction of waste. I should say that the government figures on administration in hospitals unfortunately include physical plant costs, food services, laundry, housekeeping, medical records and other essential services, which in almost any other line of business would not be classified as administrative. These, as a result, have inflated many of the administrative costs to a level of approximately three times what they actually are.

We have examined this issue of administrative costs in some detail. The evidence that's available to us, which is considerable, suggests that we're doing quite well in relation to all other Canadian hospital experience and our ability to manage our administrative costs is comparable with the same numbers for leading US health management organizations.

The result of all this, though, is that any notion that savings of the kind now contemplated can be made from further administrative efficiencies is in our view misguided. It is our view now that the only way to achieve

major savings in hospitals will come from clinical efficiencies or organizational consolidation. Those are the two options open to us.

A further issue, one that's often overlooked, is that hospitals are something other than enterprises which heal people. Hospitals, in our view, are essential to Ontario's technological competitiveness. Some members of the committee, I think, will have seen that. Mr Kwinter, you may have at various times come across that as minister of industry. Many of the hospitals, including Mount Sinai, the Hospital for Sick Children, Sunnybrook Health Science Centre, the London Health Science Centre, to name only a few, are active in advanced materials, advanced computerization and visualization, robotics, electronics, and of course direct medical research of all types.

The federal Minister of Finance acknowledged this important role of hospitals yesterday and I would ask the committee to consider whether it would wish to do the same. Inclusion of hospitals in the programs of the provincial centres of technological excellence would be an important first step in this regard.

In summary, for this first of my three issues, OHA strongly urges that the committee recommend to the Minister of Finance that the government reconsider its proposed 7% reduction for 1998-99 and that the government take out only those savings that can be obtained through hospital restructuring; second, that the government make changes to the Hospital Labour Disputes Arbitration Act to remove collective agreement provisions which restrict a hospital's ability to determine who does which work, including contracting out.

I would now like to turn to current health care planning in Ontario. In our opinion, that planning is second-rate. The first problem is that much of the planning being done is not evidence-driven. For example, about two thirds of the money being taken from hospitals this year is being redirected to other programs in the belief, and "belief" is the word I would emphasize, that the work can be done either better or cheaper outside hospitals. The trouble is, there is no conclusive evidence that this is the case. In our view, hundreds of millions of dollars have been redirected within the envelope without definitive evidence that the programs on the receiving end can deliver the service any better than hospitals.

We have no objection to funding changes taking place where it can be proven that somebody does something better or a combination of better and cheaper than we do, but we object pretty strongly to the level of redirections being undertaken because a very detailed survey of the literature available to us suggests that the evidence behind them is at best inconclusive.

The second argument, which I've already mentioned and will just touch on again very briefly, is that the government is proceeding with cuts that are essentially across the board. They're not completely across the board, because they do vary somewhat in accordance with a formula that we have agreed upon with the government. But across-the-board cuts are not what were promised by Mr Wilson when the process started. In fact, the person who delivered the clearest warning of the danger of across-the-board budget cuts was Mr Wilson, then the Minister of Health. He clearly warned about the mediocrity such cuts would bring, but we have for almost two years been locked into this policy and, to use the minister's words, we now run the risk of ending up with "mediocrity in the system."

It's one thing, from our point of view, to make honest mistakes in the absence of knowledge; it's quite another to do something even when we know and had advance warning that this was not at all a wise thing to do.

A third problem with the planning of the health system may be even more insidious. It is a tendency among leaders within the health care industry to talk about their visions and to present neither evidence nor choices to justify them. In the last two months Ontario hospitals have been visited with three major visions about the health care industry: the National Forum on Health; the committee of federal and provincial ministers of health; and the Ontario Health Services Restructuring Commission. And that's only the crop of visions for the last two months. This has been going on for nearly 30 years.

A good example is The Vision of Ontario's Health Services System, recently released by the Ontario Health Services Restructuring Commission. In my view, it's quite a remarkable document. It says little or nothing about the dramatic technological possibilities which can improve patient care and which are transforming the practice of medicine as we speak. It does not report at all on greatly improved coordination among health providers in all parts of Ontario. It does not report on the recent emergence of the Ontario Health Providers Alliance as a strategic alliance between many of the major health care organizations and associations in the province. It doesn't talk about the managerial capabilities or financial coherence of any part of the system. Arguably, it proceeds directly to a series of organizational options without dealing with any of the major forces that are shaping and will shape the future of the health services system.

Aside from the problem of dealing with the monthly crop of visions, we think this approach is dangerous because it has a profound potential to encourage public policy based on emotions, preconceptions and ideology rather than facts. Facts, as someone very famous once said, are better than dreams, and I think we need to pay a fair bit more attention to them.

There is a fourth problem with the system. I've spent much of my professional life lending or investing money or advising on it and making the kinds of decisions needed in any financial institution. However, even after that, I'm aghast at the rigid methodologies and benchmarks we are applying in determining how the health care system is to be reconfigured: how many acute care beds there will be, how many long-term beds and so on. But this is a human service system affecting the real lives of real people, not a paint-by-numbers picture. You can't deal with it that way.

1120

I'd like to give you an example of the consequences of making decisions about the size of the system and the number of beds in this way. The example involves social admissions to hospitals. The commission's restructuring decisions on the number of beds in each community are being made on the assumption that people will be admitted to the hospital only if they need acute medical

care, and not because they simply need help and support. This could have profound social impact.

I'd like to tell you about one of many thousands of such cases we see every year. Recently, an unemployed man on the west coast was offered a job on the east coast, where his family lives. He had run out of his luck but he did have a job offer and his family was a few thousand miles away. He decided to hitchhike back east. He waited for 24 hours in one of our cold prairie cities in January temperatures and was subsequently admitted to hospital there suffering from exposure to the cold. The hospital did what it could. Caregivers helped him to get warm again and looked after him briefly, but he was soon on his way again. After tremendous hardship, he was driven by some caring soul to a doctor in a northern Ontario community. He was cold, underclothed and undernourished. The doctor treated him, the hospital gave him some meals, found some clothes and sent him on his way when they thought he had a chance.

There are several ways of looking at this, as members of the committee will immediately observe. First, some planners would say that hospitals have no business admitting people like this because they are desperately down on their luck, like this man; they should send them somewhere else. In many communities in Ontario, there's nowhere else to send them. These same people might say that another common problem that hospital managers face, that is, providing respite capacity for women and children from abused families, also should happen elsewhere, but again, sometimes the number of possibilities elsewhere is limited.

The other way to view these cases — and there are, as I say, many of them — is to view the problem as citizens view it. They're the customers and they think hospitals have a responsibility to reach out and respond to people in those kinds of situations where there aren't alternatives. They believe that hospitals have always been symbols of compassion. But everything we are doing in our planning will make it difficult for hospitals to continue to be places of care and refuge in the many thousands of cases where people in our system need that care and refuge and do not have much personal support or other alternatives to find them.

Earlier, I described much of our planning for health services as being second-rate, but it's really deeply troubling. The combination of failing to collect evidence before setting policy, proceeding with policies that even those implementing them know are erroneous, substituting pronouncements for careful planning and managing complex human and social services using rigid mathematical models is dangerous. We can get into a lot of trouble that way; many societies have. Any student of the 1960s would know how dangerous that path can often be. We think we can do much better.

I'd like to conclude my presentation by just outlining a few ways in which that can happen. First of all, we believe there are alternate strategies for the health system planning and restructuring that should be adopted that avoid most if not all of the problems that I've summarized.

We recommend first that the government call a halt to further across-the-board funding reductions, and for the 1998-99 fiscal year take out only those savings achieved through hospital restructuring. We do not believe the government should push the envelope still further in terms of budget restrictions, possibly at very great human cost, when we have no fundamental assurance that access to care and quality can be maintained and when we have no decent business plan in place to guide those restructurings.

Second, we recommend that to assist with the halt in the third-year cuts, decisions to redirect funds from hospitals to other health programs be made only where there is conclusive evidence to support those decisions. We further recommend — this is an important recommendation — that no new bureaucracies and agencies, such as mental health agencies, be created within the health care system of Ontario for the foreseeable future. One of the things that has struck me as a comparative newcomer to this system is how many new organizations are getting up and getting started. Care committees have been started, there are district health councils all over Ontario producing reports, there's the commission itself, there's a whole range of community care access centres and mental health agencies that have been started up. One of the odd things about this is that this constant process of creating and staffing new bureaucracies, which takes away from the front-line staff, is quite at variance with the general approach the government is taking in other sectors. We would like to see it consider a moratorium on the creation of all new organizations and bureaucracies for the foreseeable future.

Third, we would recommend that the government make changes to the Hospital Labour Disputes Arbitration Act to remove collective agreement provisions which restrict a hospital's ability to contract out.

Fourth, we urge that the government and the commission approach the issues of hospital restructuring in rural Ontario in a different and more flexible way that recognizes the unique needs and concerns of people in rural and isolated communities.

Finally, we recommend that the government develop policy and legislation that will facilitate the integration of the health system through the voluntary cooperation of health providers and building on the important examples of success already in place in many parts of Ontario in terms of creating broadly structured health enterprises.

It is critically important in our view that these steps be taken, that all decisions with respect to the reform and restructuring of the health care system be evidence-based and that they result in genuine improvements to the care people receive. If we cannot answer with clear evidence the question of why we are doing what we are doing, then we shouldn't do it. If I were to summarize my presentation in one line, that would be it. I think that's the line with which I would like to conclude my presentation.

The Chair: That leaves us with about two minutes per party for questions. We can start with the government side.

Mr Tim Hudak (Niagara South): I had a very quick question directed to Mr MacKinnon, if I could, and then I'm sure some of my colleagues may have another question. I appreciate your comments, Mr MacKinnon.

My particular concern is about these small community hospitals. I attended the OHA — I heard your remarks. I wondered if you had any advice to this committee as well about hospital restructuring with respect to the small community hospitals. How do they differ from the urban centres?

Mr MacKinnon: They differ fundamentally in two respects. First of all, there generally tend to be fewer other alternatives to their services in smaller communities. Second of all, they're very much more important to the whole community in the sense of organizing volunteers and providing a whole range of options. We recommended to the government last summer that it consider appointing additional members to the restructuring commission so that this process could proceed quickly, to avoid the kinds of concerns that are now occurring in most parts of Ontario. We will be making further suggestions as to how this can happen more quickly. It is our view — and John may want to comment, because John represents a small hospital — that this process, as we're embarking upon it, is needlessly controversial and there are alternatives.

Mr Lind: I agree with David. The small hospitals in the small rural communities, especially in the north, are very sensitive to geography and the types of customers they have. So we can't use a cookie-cutter approach, as David mentioned earlier, to look at restructuring and downsizing small hospitals. Also, small hospitals have a great economic impact on the communities, depending on the size of the community, and sometimes that is a plus when industry is looking to locate in some of these areas.

The Chair: We move to the official opposition.

Mr Phillips: I'm trying to sort of get a flavour of your presentation. I've always found the OHA presentations in some respects almost understated, but as I read and listen to you today, you're sending to me, at least, a signal of some very severe concerns. You use words like "seriously flawed," unless it's changed there is "irreparable damage," "the quality of care," "projects at risk" "second-rate" etc. I get from your presentation a sense of, at least as I listen to it, significant concern by the OHA. I guess I'd like you to confirm that. Also, what does it mean in human terms? I think we tend to get involved in the number of beds and patient length of stay and all that sort of thing. What are we looking at in terms of the human impact to people in Ontario, if I've interpreted your tone properly?

Mr Bob Muir: I'm a practitioner and I've been in the health field for 28 years, both in government and as a planner and as a hospital administrator and so on. I can tell you that the system — and people like myself and others I know in the system have not said very much over the last number of years because we knew that a lot of it could be managed. The point, though, is that I think there's real concern at the moment that the system is coming apart at the seams.

1130

For example, no one seriously thought that the small hospitals formula would be implemented in its entirety this year. Second, you have very senior people in the health system at the moment who are privately and not so privately saying that they're seriously concerned about being able to keep the infrastructure together. The size of the cuts in the ranges we're dealing with are substantial, so in human terms it means that people — I don't want to be an alarmist, but as an I think responsible individual who lives in this province both as a citizen and a practitioner in the health field, I have serious concerns about being able to keep the managed arrangements together; in other words, the ability to ensure that the system that people are used to and practise in 24 hours a day can actually stay together in many parts of the province. I think I echo a lot of other people who, two years ago, wouldn't have said that.

The Chair: Thank you very much. We'll move to Mr Martin.

Mr Martin: I would suggest, as Mr Phillips has, that you have in fact understated the problem. Where you say the quality of care "may decline" and that people of this province "will face" reduced access, they're already doing that: They're already facing it and it has declined.

The frustration for me, representing a community where I see that happening, is that I know the stories. You've probably in the last couple of weeks been aware of the Mauno Kaihla story out of Sault Ste Marie, out of the Plummer Hospital, a very definite example of a reduction, a diminishing of the quality of care, and we have other stories like that. We've had at least three people I can point to in the last couple of months out of Sault Ste Marie who have died waiting for heart surgery because the waiting list is now up over 250 in Sudbury. That's happening. That's what's going on. I rise in the House and, for suggesting that the minister is lying to us when he says there are no cuts — each day we ask about the cuts to health care and get removed from that place for doing that.

Mr Gerry Martiniuk (Cambridge): It's for acting in an unparliamentary way.

Mr Martin: The stories we could tell and that I'm sure you could tell from talking to your members are quite startling and disturbing. Why won't you go so far as to say that the quality of care has in fact deteriorated and people are facing reduced access to care in this province right now by way of the cuts that have already happened?

Mr MacKinnon: There is no question that the comments we are making today represent, for the OHA, a very major departure, and I would hope that both government and opposition members would accord it greater weight precisely because of that. This represents a very significant consensus in the hospital community of Ontario that after a couple of years of intense efforts, some very successful efforts, to achieve the government's goals, we now think we cannot do it without significantly and seriously impacting on people.

We also, though, have a responsibility. This system is a system that 13 million people rely on each year for visits. It's still functioning in a quality way and people are working very hard to make it work. In any big system there are always going to be a few problems, and we are worried about that. Even one problem perhaps is too many.

I hope you will accept this consensus reflected in this document that after years of working very hard to

cooperate with the government to achieve its goals, we don't think that we can carry on in the same way as we have in the last couple of years.

But there is an upside to it. The steps we've recommended at the end achieve nearly everyone's goals. Some of them are difficult, but it's entirely possible, with some imagination, for some of the policies that have governed this system to be changed.

A wonderful historian, Barbara Tuchman, wrote a wonderful book on folly in government over the centuries. She called it The March of Folly. In her view, the true test of statesmanship is whether one can be open to new evidence, absorb it carefully even when it contradicts deeply held belief, examine policy in the light of the new evidence and redirect it as required. Ms Tuchman is a distinguished historian. Her view is that this reflective process is the highest practice of the art of government, not driving on regardless.

The Chair: Thank you very much. We appreciate the Ontario Hospital Association's presentation in the health care area, a very high priority indeed for this government and for the people of Ontario. We appreciate your presentation before us this morning.

CONROS CORP

The Chair: Next we have Conros Corp. Mr Chandaria, will you come forward, please. Welcome to the committee.

Mr Navin Chandaria: I would like to thank you for inviting me to participate in this important committee to express my views. I am an entrepreneur who by my own choice immigrated to this great country in 1975. I would like to share with you today some of my thoughts on public policy.

Together with my brothers, we have built a sizeable business employing about 400 people. While we enjoy a leading market share in Canada, 90% of our production is exported to the United States and Europe. Among other industries, we produce Northland Firelogs. So far, we have competed vigorously in the United States and positioned our products on most major retail shelves in the US market.

During the 1980s, my company transferred jobs from the United States to Canada, moving production facilities of a business we bought in the US to Canada. Last year, we opened a new factory, but this time, and for the first time, it's located in the United States.

Unless something changes, we will continue to see migration of jobs. In fighting to grow our businesses, we have no choice but to export more; the Canadian market is too small. What better location can one dream of than to be next to the world's largest consumer market? We cannot ignore the fact that every country does the same thing, that is, export, export and export, and especially to the United States.

Japan has understood this extremely well. The reality is that we no longer have a market protected to ourselves. We have to compete with countries that have low labour and raw material costs. Inefficiencies and waste by the government result in higher taxes. These taxes are ultimately borne by individuals and businesses. To then ask our businesses to compete in the global marketplace is like tying a sack of sand on the back of our Olympic swimmers and asking them to compete with the rest of the world.

1140

It is my suggestion that our government should consider the following:

(a) Government must continue to downsize and eliminate jobs that do not add real value and let the private sector create the jobs.

(b) Government expenditures: Governments should introduce incentives for saving and not for spending maximum as per budget. Businessmen reward people who can buy better and spend less, whereas government departments seem to thrive only if they use up their budget to the fullest.

(c) Reduce taxes: Governments must realize that they too have competition. Tax holidays, low property taxes, zero sales tax, zero business tax, job creation grants, research and development grants are most commonly available south of the border. How can a Canadian dare to compete with all that, plus the made-in-USA seal?

I must say that I am encouraged by many changes that our present government has implemented during such a short period. One specific suggestion that I would like to make is that Ontario should maintain as low a corporate tax level as possible. Factories that have moved south of the border are there because it makes business sense and they have to be closer to the marketplace. Low corporate taxes may encourage many multinationals to consider moving their headquarters and research facilities to Ontario, while leaving the factory jobs south of the border.

I want to encourage the provincial government to continue its program of deficit reduction and reducing taxes. Any policy that creates a positive environment for the private sector to create jobs and wealth will make this a very strong province. By reducing the burden of taxes on businesses, you will free up capital for us to invest in creating value added jobs and opportunities for all the people of Ontario.

Thank you for listening to me.

Mr Kwinter: Thank you, Mr Chandaria. It was a pleasant surprise to see you here.

Mr Chandaria: Yes. Good to see you, sir.

Mr Kwinter: I saw your name and didn't realize who you were. I'm delighted to see you again. We have discussed this before. If you recall, we talked about your Northland logs and the problems you're having competing. Your process isn't a particularly high-technology process, but it depends on, as you say, low costs in order to be competitive. When you move to the United States, when you're opening up this latest plant, what are the very specific advantages you're getting there that you're not getting here?

Mr Chandaria: I must correct one area. One of the reasons why we are very successful with our product is because we employ technology both in production and the end result, the product itself. We are the only ones who have clean-burn technology in the entire world, and they're all patented.

On your question as to what incentives we have south of the border, when you look at the taxes, the property taxes, business taxes, they are one tenth of what we pay over here. Secondly, we have a 10-year tax holiday from the local state where we don't have to pay taxes. They have very lucrative job creation grants available. Research and development moneys are easily available. We don't have to fight as hard over there as we have to over here.

Even more important, everybody should note, is that to raise capital was so easy for us. We raised capital by the issuance of bonds locally over there, which is tied into the tax incentive. In the final analysis, we are closer to the market. We save freight. We all forget that we're next to the US market, but at the same time we still have to consider the freight to the markets. I hope that answers your question, sir.

Mr Kwinter: The reason I asked the question is that I'm trying to identify what you perceive as a competitive advantage and virtually every one of these things the present government has said they're not going to do. They've made it almost a matter of pride to say we are not going to do any of these things any more. I have to admit not all of these things have ever been done in Ontario, but certainly some of them have. Particularly the Minister of Economic Development, Trade and Tourism prides himself in saying there are no longer going to be any government handouts to any industries. If they can't make it on their own, they're not going to make it. Do you see that as a serious deterrent to industries locating in Ontario, particularly like yourself, coming from other countries, setting up a business here to access, as you say, the largest market in the world?

Mr Chandaria: Let me share with you my views on that. I agree, our government does not need to hand out. Firstly, under NAFTA I know it becomes more and more difficult. You can't subsidize.

What I would like everybody to understand is, by the time we make our first $1 profit, what happens is the government takes a portion of that. Nobody has bothered to look into the whole process that by the time we've paid the first $1 profit, we have firstly created jobs whereby government saves the money of having to pay unemployment benefits. We pay health taxes, which have now been put on the corporations, the employment tax, the property taxes. I'm sure if somebody were to do a study, by the time we get the first $1 as profit, probably a few dollars have been paid in taxes. What every government does is look at that $1 profit rather than all the other benefits they have got.

We're not asking for handouts, but what we are saying is, leave that $1 profit we made to us. Don't tax it or tax it very little so that we can use that. What happens on the other end? The government collects the tax on our $1 profit, then it creates jobs for bureaucrats to hand out and spend that money. Who does it go to? Somebody who wants to put up a new industry and has the one-foot-thick pile of paper to justify the project. How many projects really take off out of all those which are based on government money?

If we have managed to earn that $1 profit, let us be the ones to also spend it to create more jobs rather than going and looking for somebody else, rather than taking it away from us and giving it to somebody else who may or may not be able to create the jobs.

1150

Mr Martin: I apologize for not being here for the fuller part of your presentation, but I think I get the gist of what you're saying from your conversation with the official opposition. I appreciate some of your comments re the competition out there in the States, particularly because they're our closest neighbour. I think sometimes this isn't said enough, but you're saying it here this morning. Perhaps I missed the context, but you'll help me with that, I'm sure.

In the States, governments are involved in many forms of concessions to business to attract them. I know, from having close association in Sault Ste Marie with Sault Ste Marie, Michigan, and Marquette and from attending some of the conferences that go on, that government finds ways, in spite of NAFTA and other regulations that are now in place, to attract industry by offering them all kinds of incentives. I want you to comment on the question my colleague raised about the competitive edge there that is being taken away now very significantly in Ontario because of this government's ideological view that government should not be in any way involved in that kind of activity. Then I have another question, because we have a six-minute round here.

Mr Chandaria: My comment to that is that I don't think government needs to give money and a grant for a business like ours to prosper. I don't think they need to do that. What I'm really saying is: Reduce taxes. If people take that income personally, then tax them, but as long as they leave it in the corporation, don't tax, or at least reduce the tax, because what happens? For our next project, we need to go and look for money from financial institutions. What you're doing is taking away the profit we made. You're already taking away many times that much profit indirectly.

Mr Martin: You're not seeing a reduction in taxes on the income generated by business and what some of us call loopholes and that kind of thing as a government incentive to business? You don't see that as the same thing? You can give out grants or you can give tax breaks. It's the same thing: It's more money in your pocket so that you can do other things and perhaps be more profitable. I'll leave that, and you can comment on that, hopefully, in a minute.

The other thing is this issue of taxes. I get the sense from listening to a whole lot of people that there's this feeling out there that taxes are actually money into a big black hole somewhere, that it somehow leaves the economy, it disappears, it's in a Swiss bank account or perhaps goes to gold-plated pension plans for MPPs or something.

It seems to me that one of the competitive advantages Ontario has and has had traditionally over the years, and many economists and studies will say this, is a first-class education system that provides good, well-trained employees; a first-class health care system that provides all kinds of advantages to businesses because they don't have to pay for the kind of health care coverage for their employees that they do in the States; and a first-class

infrastructure. We had the Good Roads people here a while ago, last week or the week before, talking about how important it was for us to maintain, and you mentioned getting our goods to market. It's important to have good roads.

That all takes money, and that money, unfortunately, comes from taxes. All of us contribute, and we try to find ways to make that as equitable and as fair as possible. If we take away government's ability to collect taxes from those who make the most by way of a tax break, which is what you're suggesting, doesn't that in turn cut into our ability to maintain the education system, the health care system and the infrastructure that we have in place, and doesn't it also cut into the ability of the customer, who at the end of the day is probably your most important ally in any business you would have, to actually buy your product?

Mr Chandaria: Let me address that one, sir. We must not forget that we live in a global economy. It's not what it costs me to produce and my overhead just because we want to provide the first-class health system and the first-class everything to our employees; what really matters is that when we go to Wal-Mart to sell the product in Bentonville and say, "Look, our costs are high because I have to pay so much on each case of firelogs that I sell to our government to take care of our people," they don't want to know that. Either we're competitive, we have a great product, or we're out. The Canadian market is not big enough for any industry to be sustained on.

Mr Martin: But the domestic market in Canada is of a significant enough size to warrant outfits like Wal-Mart coming to our country, because they know there's a market out there because our people are able to buy. They're able to buy because they have jobs.

Right now in my own community we've lost over 1,000 jobs in the last year and a half. Those are people who are no longer going to be buying from you, because this government has, rightly or wrongly, decided this is the tack it wants to take. It's not just a question of competitive advantage — and I think that is an important thing to consider — it's also a question, in my mind, of having a consumer who's able to buy, plus having for you employees who are looked after and who are well-trained, and having for you, paid for by the government, an infrastructure that helps you get your product to market. Don't you agree that's a factor as well?

Mr Chandaria: I hear what you are saying, but the reality is that our market is not of an economical size for most plants to survive on. Most plants in the United States, just by running over the weekend can fully supply the Canadian needs. They really don't need our market, and most Canadian manufacturers don't even consider Canada to be an important market, rightfully so.

Mr Martin: Why is Wal-Mart so anxious to come in, then?

Mr Chandaria: They are here to grab the retail dollar.

Mr Martin: Because there's a domestic market.

Mr Chandaria: They've expanded fully in the United States.

The Chair: Thank you very much. I'm sure that philosophical debate could go on a long time. We move to the government side.

Mr Jim Brown: You're in my riding, and I'm going to have to come out and see you. I had a small business, a small manufacturing company, for 20 years. I agree with you completely. I never wanted a $10 handout from the government that would cost $90 in bureaucratic administrative fees; just save me the $100. I think that's what you're saying. Instead of paying $100 in tax so that $90 can go into bureaucracy so you can get $10 back, forget it. Leave the $100 in your pocket, because you can spend it better than the bureaucrats. Is that true?

Mr Chandaria: Yes, sir. I'm glad you've been on our side of the table and experienced it. Thank you, sir.

Mr Jim Brown: I've been on the other side and, like you, I've had to put up with the bureaucracy and, like you, I've looked at the high cost of running things. Mr Martin talks about the fine education system. We sure spend a lot, but graduates would come out and couldn't spell, couldn't run computers. What do you do? I'm curious what states you considered and where you are located in the States.

Mr Chandaria: We are located in Alabama. Our plant is in Birmingham.

Mr Jim Brown: There's another thing I'd like to touch on too before the time goes. You touched on all kinds of things. You touched on capital, the supply of capital at competitive prices to you as a businessperson to expand, to improve your technology, to hire more people. You said it was easier in the States than it is here in Ontario. I've been through this as well. We have a committee, access to capital for small and medium-sized enterprises, and we're working on that, but I'd like your comments on that area, perhaps how we could improve it, how severe a problem it really is for job creation.

Mr Chandaria: Let me share something on that with you, sir. We know that in Ontario we have institutions which have hundreds of millions of dollars lying in their coffers which were supposed to be given out to the industries or businesses to create jobs. How many people are able to lay hands on that, and what bureaucracy is involved in getting that money? I don't have all the details in front of me now, but I'll be very happy at any time to share with any of you what experience one has to go through to get that money. What I have found is that those moneys are easily available to somebody who can write a one-foot-thick project rather than somebody who can write a two-page project and make sense. You always find business people don't have time to write those thick projects. Successful business people will not be able to do that.

Mr Spina: Mr Chandaria, thank you very much, and I wish you well. You'll be happy to know that whenever I'm not burning the natural stuff, I only use Northland, for your specific reasons.

Mr Chandaria: Thank you.

Mr Spina: I just wanted to emphasize one of the points that you made. It hearkens back to both the opposition points. It has to do with government grants, government guaranteed loans, government handouts for business. I equate that to the 65 tax increases that both these two governments have implemented over the past 10 years; 33 by the Liberals, 32 by the NDP. To me, you're raising taxes in order to be able to fund these

handouts. To me, it would be far more beneficial, and I think this is what you're getting at, if we offered tax incentives — and there were 10 various tax breaks, particularly to industry, in Mr Eves's budget of last year — and if we controlled government spending. Is that, therefore, not the far better incentive to create that job-creation and business-development environment than increasing taxes and then turning around and handing the money out?

Mr Chandaria: That is the best way to create the jobs. In fact, you're eliminating the process of finding which person we should give the money to when you already have somebody who's earned that money and proven again and again that, "Look, guys, we can make sales, we can increase profit, we can export." We are a small company. We are heading closer to $100 million in sales; very tightly run. Many times, we have to live without things that we can't afford too, just to be able to be in business and sell the product competitively. Every time we have to send money to the government, tax money, we wonder where it goes, and we don't have time to get it back. We're entrepreneurs. Give us money or the capital, which is scarce; give us that, make it easy for us to get to it. We don't want extra. Leave what we have earned, and we will create the jobs.

The Chair: Thank you, Mr Chandaria. It's been a pleasure to have you before us today. Thank you very much for attending.

We have circulated a document which is the answer requested of research. I would point out that the last page is missing. It wasn't printed off the machine for some reason. That will be forthcoming. Hopefully we'll have that for you this afternoon. We will recess until 3:30 this afternoon.

The committee recessed from 1204 to 1528.

ASSOCIATION OF MUNICIPALITIES OF ONTARIO

The Chair: We have with us as our first deputant this afternoon, the Association of Municipalities of Ontario, Mr Mundell, president. Welcome to the committee, sir.

Mr Terry Mundell: Thank you very much, Mr Chair. It's a pleasure for me to be here on behalf of the Association of Municipalities of Ontario to speak to you before the 1997 provincial budget.

I can tell you that right now I think you can appreciate what is probably uppermost in the municipal sector's mind is the financial elements of the Who Does What reforms which were recently announced. Our sector is very much bracing for change, a tremendous change which will be coming forward to us.

The sector's and the association's position on the taking of education off property tax is one which we have supported, but we have paid a very high price at this point in time to have that removed. Requiring municipalities to take on a greater share of provincial social services, health and social housing is far too high a cost for education finance reform. It's simply replacing one set of problems with another, and it is unacceptable.

This position is based on the very sound principle that income redistributive programs should not be funded with property taxes. Municipalities currently pay 20% of the costs of general welfare assistance, and even 20% is too much.

During the last recession, escalating general welfare assistance costs diverted municipal resources away from critical local services, away from infrastructure investment. Municipalities want stable revenues to fund priority services. They want stable property taxes to encourage investment and foster economic growth. The proposed Who Does What reforms undermine both of those goals.

The proposed changes to the funding of welfare, long-term care and social housing institutionalize serious financial liability for municipalities and property taxpayers. The financial risks associated with these important provincial programs should not be borne by property taxpayers. Municipalities need stable revenues to meet local responsibilities. If local funding obligations for provincial programs brings financial instability to municipalities, everybody loses.

The provincial government has a clearly stated commitment in the Common Sense Revolution that decisions made by the government will not result in increases to local property taxes. Municipalities intend to hold the government to that promise and are prepared to help the government keep that promise.

We need long-term solutions that promote strong, vital and independent local government in Ontario. We need to work together to ensure that the business of local government continues to capitalize on local innovation and sound financial practices like balanced operating budgets.

As the cornerstone of stable municipal revenues, assessment reform and quality assessment services are a priority for municipalities. In some communities the impact of the assessment reform will be substantial, and in others assessed property values are relatively current already. The province-wide reassessment that is currently under way will be the foundation of all provincial-municipal reform scheduled for 1998. Its success is critical and the Ministry of Finance bears a tremendous responsibility in that respect.

AMO will address the specifics of Bill 106 when it is comes to standing committee hearings. There are, however, some observations that we would like to offer now.

The draft legislation advances a fair measure of municipal autonomy for local tax policy decisions. That autonomy is appropriate and municipal governments are prepared to account for local decisions that reflect local circumstances and local priorities.

The flexibility for local decisions on tax policy, the phasing in of shifts in assessment values and a local option for current value are critical to the success of assessment and property tax reform.

The province's decision to shift the responsibility for assessment services back to the municipal sector did not come as a surprise to municipalities. Like the Who Does What panel, however, municipalities believe that the transfer of costs and responsibilities for assessment services should occur after the new and untested assessment framework has stabilized.

When responsibility for assessment services is transferred to the municipal sector, we need a model of de-

livery that balances the government's objective of a uniform province-wide system with the municipal objectives of quality, efficiency, flexibility and full cost recovery.

Municipalities in Ontario have experienced a very dramatic decline in provincial funding since 1990. In 1997, municipalities will manage the second part of the two-year $700-million base reduction in municipal support grants. The government has indicated that the remaining $666 million in grants will be eliminated in 1998. The loss, which has not been accounted for in the Who Does What balance sheet, will have a substantial impact on municipal finances.

With the elimination of provincial funding, municipalities are left with funding responsibilities for a range of provincial programs and diminished funding to meet those responsibilities. Even in 1997, municipalities will be hard-pressed to fund the municipal share of child care, homes for the aged and welfare. While municipalities have planned for the eventual elimination of municipal support grants, they did not expect funding reductions to coincide with substantial new service and funding responsibilities. Any increase in health and social services costs has the potential for increased property taxes.

It is time that the province and municipalities began exploring new forms of financing for key services. Incentives like tax points or access to revenues collected by the province can help municipalities to offset pressure on mill rates. Incentives can be linked to performance measures or demonstrable efficiencies.

A clear example is fuel tax revenue. The tax was implemented to tax the users of our roadways. The fuel tax should be dedicated to roads in its entirety, whether they are provincial highways or local roads. If the province plans to transfer another 4,000 kilometres of provincial highways to municipalities, they need to transfer access to adequate revenues for critical infrastructure investment and maintenance. Tying the fuel tax to roads is just common sense.

The province needs to foster an environment where entrepreneurial activity is rewarded. Activities which remove charges from the tax bill while preserving services improve the transparency of service costs. Collecting 911 charges on the phone bill instead of on the tax bill is an excellent example.

Municipalities are also seeking a renewed provincial commitment to the Canada-Ontario infrastructure works program. Ontario needs a renewed tripartite federal, provincial and municipal partnership for investment in key municipal infrastructure projects. As municipalities prepare to assume responsibility for even greater infrastructure responsibilities, the infrastructure works program will represent a critical investment in, and a major commitment to, sustainable jobs and sound economic development.

There are also critical components of municipal revenue that the province is currently jeopardizing. The proposed new Development Charges Act will shift a substantial share of growth-related capital costs for new development from the developers on to existing property taxpayers. Development charges are a critical component of growth-related capital funding for services ranging from sewer and water to police and libraries.

Municipalities believe that development should pay its own way. Communities should not be mandated to subsidize development. The proposed legislation will further destabilize municipal revenue and diminish the capacity and tolerance for growth in our communities.

Municipalities are accustomed to managing expanding responsibilities with declining resources. Improvements in efficiency have accounted for more savings. Provincial regulations and red tape, however, continue to stand in the way of more effective and cost-efficient service delivery.

There are issues tied to current collective agreements that stand in the way of restructuring. Successor rights and seniority provisions mean that new municipalities that result from restructuring are encumbered by outdated collective agreements. Newly created municipalities should be allowed to freely negotiate arrangements with their workforces. The concept of a common labour pool should be recognized in the case of amalgamations to ensure that the service of non-unionized municipal employees is recognized and that their seniority is respected.

Outdated collective agreements also stand in the way of effective alternative service delivery strategies like contracting out and intermunicipal service arrangements.

The portability of OMERS pensions is also an issue. If employees are permitted to participate in OMERS once services are transferred to non-municipal employers, contracting out would become a more attractive option for both municipal employers and employees.

Interest arbitration continues to be a problem for municipalities. Past practices of arbitrators have been to award increases that are higher than those freely negotiated with other municipal employees. Proposed legislation for fire services addresses many of the outstanding problems with arbitration. Additional amendments to the Police Services Act should be introduced to further harmonize municipal labour legislation.

It is still too early to analyse the success of schedule Q of Bill 26, which requires arbitrators to consider a municipality's ability to pay for awards. The criteria set out in Bill 26 should be strengthened to ensure their application rather than just their consideration in order to avoid potential service reductions or increased property taxes.

Restructuring is not a panacea. It is not a magic pill that will cure decades of overly complex and entangled provincial-municipal financial arrangements. Municipalities have been seeking a rationalization of provincial and municipal roles and responsibilities for many years. We have only just had a glimpse of the government's vision of Ontario in the 21st century. Some aspects of that vision are shared by municipalities. Other parts of it are not shared. In any event, municipal structures and boundaries will adjust to match new realities. Form necessarily follows function.

But restructuring needs to be about more than redrawing municipal boundaries. It needs to be about changing expectations. It needs to be about engaging property taxpayers in discussions about the services they want and need and the services they are prepared to pay for. It

needs to be about new ways of doing business, where innovation, efficiency and competition are rewarded.

The province is responsible for comprehensive provincial policy and the broader systems that link us all together. Local management, local decisions and the identification of local priorities are the business of municipalities. There is a common trust inherent in that relationship, and that trust is being compromised by the proposed Who Does What reforms.

We hope this government realizes that what is in the best interests of municipalities and property taxpayers is also in the best interests of the province of Ontario. Municipalities are already a major service provider, and the provincial government's principal partner in service financing. Overall property taxation in Ontario will exceed $14 billion in 1997, an amount almost equivalent to the sum of provincial personal income taxes.

Municipalities have led all orders of government in terms of accountability. Full public access is assured and decisions are made in open forums. Elected municipal officials are not bound by party politics. The interests of municipal taxpayers are the interests of municipal governments.

People want public services that are flexible and responsive to changing needs. They want local innovation and models of service delivery that match the circumstances and priorities of their communities. They want to see investment in local services that promotes long-term cost-effectiveness. They want to benefit from economies of scale and they demand that all levels of government work together to use their tax dollars effectively.

1540

Municipalities are up to the job of providing those services in our communities, but we need to ensure that municipalities have stable revenues to match those responsibilities now and for the long term. We need to ensure that municipalities will be in a position to account for the quality and cost of those services.

Currently, municipalities provide police services at a cost of $1.5 billion, and in 1998, $182 million in OPP costs currently paid by the province will be transferred to many rural and northern communities. These new costs will have a substantial impact on the finances of affected communities. The announcement that more municipalities would be required to pay for policing did not come as a surprise. The transfer of these new costs in 1997, without the offset of savings arising from education finance reform, would have been unacceptable. In 1998, the government must ensure that those savings are sufficient to meet all new responsibilities, including police services.

Municipalities have been advocating for improvements to the governance of policing in Ontario for decades. The proposed amendments to the Police Services Act will allow municipalities to control the cost of policing in their communities. By abandoning an outdated model of governance where municipalities paid the bill but had no control over the costs, the government has substantially improved accountability for police services in Ontario.

Police services are an excellent example of a critical public service system where provincial interests and province-wide standards are reflected in local decision-making and local management responsibility. Local control over costs completes the picture of a service system that meets the needs of the people who rely on these services, the women and men who deliver them and the governments that account for them.

The government's proposed realignment of long-term-care funding flies in the face of this model. It also flies in the face of a comprehensive, cohesive and appropriately funded health care strategy for Ontario's communities.

Municipal governments want to be clearly and directly accountable for the services our citizens demand and for the sound management of local government. Where municipalities fund services, whether it's 10% or 100%, they must have appropriate controls over the expenditure of property tax dollars.

Where municipal governments deliver and finance provincial programs, we need to share accountability for those programs as well. Yet shared accountability is not an option. Municipal governments are accountable for property taxes, even when those tax dollars are spent by the province. That shared accountability means that municipalities must share in decision-making and policy and program design, and in the setting of province-wide standards of service.

Municipalities are not anticipating any significant impacts in the province's 1997 budget. To effect any further reduction in municipal revenues at this time would be disastrous for municipalities, and it would send an ominous signal to property taxpayers who are already bracing for 1998.

Much must be accomplished in 1997 if municipal governments and the province are going to prepare for major reform in 1998. To begin with, municipalities need an accurate accounting of the financial impacts of the proposed Who Does What reforms. People are not interested in debating the numbers. No one can accurately predict that property tax savings can be achieved by the year 2000.

What people want to hear is that the government's decisions are based on a sound policy rationale and a careful analysis of the financial implications for taxpayers. It is time that the government made that information available to municipalities and taxpayers.

Alternative strategies must be explored. The government has said that its bottom line and the basic tenets of reform are not negotiable. There are better ways to get the same bottom line, ways that rationalize and disentangle services and protect property taxpayers from potential tax increases. We intend to discuss these alternatives with the government over the coming weeks.

The array of impacts is very broad. Farming communities will be hit hard by the government's decision to shift the cost of the farm tax rebate to municipalities. Communities with high social assistance caseloads, especially urban communities, will see their budgets taken over by welfare. Long-term-care costs and social housing costs will eclipse the funding of important local services in many communities. In northern Ontario, policing costs and a limited assessment base will put serious pressure on municipal finances. Regardless of the details of the major reform, there will be substantial differential impacts that will need to be addressed. Ontario is not a one-size-fits-all province.

Contingency funding will be critical to the success of any reform package, but contingency funding will not work unless municipalities have substantial input into the design, implementation and management of the funds. We also have to look very carefully at the adequacy of the funding. Where reserve funding needs to be in place over the long term to protect against cost escalation, we must ensure that it is not vulnerable to future provincial constraints. At the same time, contingency funding must not become a model that fosters ongoing reliance on provincial funding.

Municipalities understand the fiscal imperatives of this government. Municipalities want better government at less cost. In fact, we coined the phrase.

Ontario's municipal governments want to work with the provincial government to restore public confidence in government in Ontario. We want to work together to ensure that taxpayers have a clear understanding of who does what and who is accountable for what. Taxpayers expect both levels of government to work together to ensure that their hard-earned tax dollars are directed to the services they need and are prepared to pay for.

Municipalities and the province have many common objectives. Key among them is we work together to improve the economic outlook for Ontario and for Ontario's taxpayers. AMO and the government must work together to ensure that it happens. It's a simple equation. We need the province to work with us to ensure that provincial cost savings are not achieved at the expense of property taxpayers. By working together, we can achieve needed savings for the province and for municipalities. By working together, we can provide the people of Ontario with better government at lower cost. Together we can embark on a course of sustainable and commonsense reform. We do not need to compromise the principles of good government to get there. Thank you very much.

The Chair: Thank you very much, Mr Mundell. We'll begin a three-minute round of questions with the opposition.

Mr Phillips: We've been trying to understand the implications of the Who Does What moves in terms of cost to municipalities and cost to government, and actually our caucus has been travelling around the province talking to municipal leaders and things like that to get a feeling on it.

The numbers we have suggest that the government has taken about $5.5 billion off property tax in the form of education and children's aid and women's shelters. The government has said itself it's adding $6.4 billion. That was the government's estimate. We feel that they have understated municipal transit and GO, according to I think the Hamilton-Wentworth people, social housing capital costs. I don't think there's any money in for transferring 4,000 to 5,000 kilometres of highway to municipalities, which we think could be another $100 million. Sewer and water are $100 million. That is, in our opinion, a net added cost of about $1.355 billion offset by, as you point out in your brief, the $1-billion fund, minus the $666 million. So our estimates are that they've added $1 billion. Frankly, we're having trouble getting that confirmed, because we have to use estimates from municipal leaders.

Has AMO been able to assess what the impact is in terms of the net-net-net cost of all this, and could you share with us that estimate?

Mr Mundell: I truly wish I could share that estimate with you. At this time, it has been very difficult for us to ascertain the exact impact of the Who Does What announcements which were made by the government. We still do not know the implications of road transfers. We don't know the implications of the social housing announcements. We're still uncertain of some of the long-term-care funding issues and FBA. At this point in time, there are more questions than answers.

I can say to you that best estimates across the province created by municipalities have not shown that the municipal sector is in any way, shape or form in a position of net benefit though. We are still pressing the government to try and get information so that we can ascertain what the real impact is, but right now, there are more questions than answers.

Mr Phillips: To get your comment on the philosophy behind it — I think in your opening page here you indicated some real concerns about transferring social services, health, social housing, on to property tax, and frankly, I think you're not alone; people at the board of trade, the United Way and many others have — how strongly do the municipalities feel about that and how big an issue is that, the transferring of long-term care, social housing and social assistance on to property tax?

1550

Mr Mundell: I think across the province, in my discussion with municipal leaders, the sector's position is one which is consistent. We do not support income redistributive programs being funded from the property tax base. I have not had a municipal politician tell me otherwise yet. That position is clear.

Some of the issues around some of the other portfolios, we get into some real discussions in and around accountability and the ability on our behalf to control or be accountable to the property taxpayer for the dollars which we are raising, a substantive concern in our ability to provide the services that our ratepayers want and be held accountable for them.

The Chair: Thank you very much. If we could move to the third party, three or four minutes.

Mr Gilles Pouliot (Lake Nipigon): Three or four minutes. I thank you kindly.

Mr Mundell, this is an unprecedented second term as president of AMO, so when it comes time to not only get along with people but really understand the system and the fine lines, you would be a fine person to engage in consultation. You know very much how the system works.

I too have some 10 years of — I can't say exposure, but the ability of our taxpayers to give confidence — a little over 10 years before I came to this place, and I thought it was to be better because of the area of responsibility and the jurisdictional capacity. I've been here 12 years. Now I don't know where to go. I'm not going to the big House.

I see the government, Mr Mundell, and I need your expertise, but first help me. How many municipalities do you represent through AMO?

Mr Mundell: We represent over 90% of Ontario's population.

Mr Pouliot: So that would be 90% of a total population of approximately 11 million people — big time — you represent. When we talk about AMO, we talk about municipalities, grosso modo about representation. You know that the government has eased the portion, appearing to give money back, but they really don't, the education portion of some $5.4 million. That's the end that gives, but there is an end that takes, and there is a discrepancy which is well over $1 billion. In other words, when we're talking about industrial, not so much; when we're talking about residential, a lot. These are the people who will take the hit, the home owners. There's a shortcoming of well over $1 billion, and you know that the municipalities don't have the same ability to borrow as that of a senior government, provincial or federal, of course. Where are they to take the money, if they live in a small community outside Metro, to make up for the shortcomings?

Let me give you a real example, the fascinating world of sewer and water. If you have one that is running by reputation — and needs to be, because automatically, when we turn the tap on, we expect clean and safe water, a normal reaction, a normal, most reasonable request. It costs millions, even in the smallest of municipalities. If these people are downloading — when I say "these people," the government of the day, with respect still — if they are downloading on municipalities and saying, "You're on your own now, and we'll cut through the red tape," where are the people going to take the $4 million to $5 million with a population of 3,000 to 5,000 people? Where are they going to take that money?

Mr Mundell: Thank you very much for the question. In my 16 years, about to be 17 years, in municipal politics, we have viewed many different situations. My community presently is involved in that particular issue. It's a small community outside of Metro, outside of the GTA, with about 2,500 people, and just in fact did vote to restructure itself to a larger community. We're looking at installing a sewage treatment plan in that community, which will be about $12 million.

Those dollars, from the estimates we look at right now and all the changes that we see, will not be able to come from our community and it looks at though we will be in a position of not being able to fund that particular plant, which will hamper our abilities to attract commerce, economic growth, jobs for the people of our community and foster a quality of life which is acceptable to those in the community.

Mr Pouliot: If you have a more fortunate state of events in a neighbouring municipality, standards will be compromised.

Mr Mundell: I think the issue which we have right now is that municipalities generally are looking for stable revenues, a stable resource base, a situation where they can do long-term planning, can make decisions on long-term capital requirements, so that we can, in effect, put in the types of services that our ratepayers expect. To do that you need to be accountable and in control of the dollars which are raised on the property tax. With the proposed reforms which have been announced by the government under the Who Does What packages, we believe our ability to have a stable resource base across Ontario is seriously undermined.

Ms Isabel Bassett (St Andrew-St Patrick): Thanks for your presentation. I'm happy to see that AMO wants to work in cooperation with our government. I wonder if you could just briefly tell what tools are most required to fulfil our common goals, and secondly, what key changes you want to see.

Mr Mundell: I think we all want, on both sides of government, provincial and municipal, to build a system that has long-term sustainability. Our concern right now is that the system that we are building with the reforms presented does not create long-term sustainability.

We want to be able to build a system where municipalities can plan for the future, where we don't have to rely on continual funding from the province, but recognizing that one size does not fit all around Ontario, that there are some areas which may not have the resource base to do that. We need to have a system where we're accountable for the dollars we raise off the property tax base and where you are accountable for the dollars you raise off the income tax. We don't think we have that just yet.

Mr Ford: We have 800 municipalities across Ontario, as you're well aware, and this government claims that with the reduction in the education tax and maybe the downloading, as you call it, of the other responsibilities, there's going to be a wash on that. What's your opinion?

Mr Mundell: As I responded to a question earlier, I think the situation we have right now is that we do not have all the numbers. We believe there is still information which we are hoping the province will supply to us, which will enable us to go out community by community to show exactly what this means. Some examples: the road transfers — we don't know the numbers, where they are, how much, the conditions of the roads; FBA; dollars for social housing. The elimination of the block grant was not included in the initial calculations. There is a lot of work to do in the detail yet.

Mr Ford: I realize that, so most of what you're saying here, and probably most of the negativity going around, is speculative. You haven't got final figures, so that's speculative. Is that not right?

Mr Mundell: I think what we are doing is speculating, the same as the province is, I guess, if you can. The numbers which were presented to us during the announcement showed that wash, but reality tells us that there are areas which are not in those numbers. What we need to do and what I think the taxpayer wants us to do as levels of government is to work together to get beyond the numbers so that we can start to understand what this really means for the taxpayer, really means for the services to our communities.

1600

Mr Spina: I'm finding a couple of contradictions here. One is that you're saying that the municipalities have a lot of difficulty making the estimates. Frankly, I'm sitting in Brampton, in the region of Peel, and I have estimates from both the city government and the regional govern-

ment telling me that they feel they have a very confident handle on what is coming in, what is in the exchange that is happening between them and the province.

Let's face it: As a municipality you know how much revenue you're collecting for the school board, that you'll be entitled to collect. You know right now that when there are provincial grants being shared with the municipalities, they're being paid to the municipality, they're not being paid directly to the sources out there. You know the amount of the costs that are coming to you from the province when in the past that money came from the province, and now you'll have your own revenue for that.

The point is that you're talking about accountability, you're talking about a long-term reliance on the provincial government. The reality is that you, as the municipal governments, are far more accountable to your local taxpayers than the province is and, secondly, you're already reliant on long-term provincial funding. That's what we are trying to exchange with the municipalities so that you don't have that long-term reliance on provincial funding.

Mr Mundell: Once again, I think the key to success is that we build a system which has long-term stability. We are very concerned that this is not the case and that's why we want to talk to the government about some of the details of the reform: to try and get at some of the nuts and bolts, if you can. There's a financial agenda. There's also an operationalizing agenda to make sure that these types of things work. But if you can tell me what the road transfers are across the province now, if you can tell me the dollars for social housing, to upgrade that stock across the province on an individual basis, if you can tell me some of those numbers, I think we can have those numbers —

Mr Spina: You control the social housing now. Why can't you get the numbers?

Mr Mundell: Excuse me. I think if we had those numbers, then we could truly do some service to the numbers so that we know they are accurate. We need the information from the province. We don't control the roads numbers. We don't have them.

The Chair: Thank you very much. We appreciate your appearance before this committee. I'm sure that as things unfold those numbers will become available.

ONTARIO REAL ESTATE ASSOCIATION

The Chair: Our next deputant is the Ontario Real Estate Association. We welcome you to the standing committee on finance and economic affairs, Mr Wood, Mr Trembinski and Mr Flood.

Mr Richard Wood: Good afternoon. My name is Richard Wood. I'm the president of the Ontario Real Estate Association.

OREA is a non-profit trade association, currently celebrating our 75th anniversary, that represents over 40,000 real estate brokers and salespeople throughout Ontario.

With me this afternoon is Mr Terry Trembinski, chairman of our association's government relations committee, and Mr Jim Flood, OREA's director of government relations.

We appreciate the opportunity to be with you this afternoon and to share with you a few of our thoughts on Ontario's economy and the upcoming provincial budget.

First of all, let me give you the good news. The real estate market in Ontario is on a roll and 1996 was by far the best year of the current decade. Early indications suggest that 1997 will be even better. We attribute this to a combination of low interest rates, pent-up demand and rising consumer confidence. These factors, together with a very moderate price appreciation, should mean a good year for home buyers, home sellers and realtors. We believe the government of Ontario can take a good deal of credit for the happy circumstance we find ourselves in.

In our numerous budget submissions over the years, OREA has consistently called upon government of all parties and at all levels to live within their means and to reduce their deficits through spending restraints. We therefore support the government's goal of eliminating the deficit and reducing the debt and we respectfully urge them to stay on course.

Low interest rates, which are one happy byproduct of deficit reduction, mean that tens of thousands more Ontarians are able to pursue the dream of home ownership. That's good for consumers, good for governments and good for realtors.

OREA would also like to register its support for the tax cut announced in last year's budget. We believe taxpayers make better spending decisions for themselves than do governments and we take the government at their word that they can meet their deficit reduction targets and provide a tax cut in provincial income tax rates. We therefore see no contradiction in advocating both a tax cut and a deficit reduction.

I would now like to call upon my associate Mr Terry Trembinski to make a few comments with respect to specific measures we would like you to consider in the upcoming budget.

Mr Terry Trembinski: As Richard mentioned, we are generally pleased with the provincial economic environment but, like all groups, we have a few suggestions that might make the current situation even better.

First, we would like the government to consider eliminating the 20% land transfer tax incurred when a non-resident buys a recreational or agricultural property. We believe this policy is outdated and inconsistent with the government's effort to attract tourism and new investment to Ontario.

Recently the government launched a new multi-year campaign called Market Ontario which is designed to attract new investment to the province. It seems to us inconsistent for the government to suggest they welcome investment by non-residents in factories, plants and services and encourage the resulting job growth but penalize that same investor who may wish to buy a summer cottage. We note in this regard that our neighbours in Quebec recently eliminated the tax they placed on recreational property and we suggest that Ontario do likewise.

There is a second reason why we believe that the 20% tax should be eliminated. Simply put, it creates distortions in the real estate market. For example, identical cottages located on the same lake are often taxed differently. One property may be assessed as a principal residence and

taxed accordingly, while his neighbour may be deemed a recreational property and therefore attract the 20% tax. Needless to say, this distorts the market value of those individual properties.

The latest information provided to OREA would suggest that the 20% tax nets the government something less than $10 million per year. That is a small price to pay to eliminate a glaring unfairness in the tax structure and to demonstrate that Ontario really is open for business.

Second, OREA would like to go on record as opposing the harmonization of provincial sales tax with the goods and services tax. We have heard the minister's assurances that no discussions on the matter are currently taking place, but it seems to us an issue that simply won't die. Tax harmonization in Ontario would result in the application of PST to realtors' fees and it would dramatically increase the cost of new housing. Neither are acceptable to this association. We urge the government of Ontario to resist overtures in this area and recognize the federal initiative for what it is: a political smokescreen.

Finally, we would encourage the government to consider the complete elimination of the employer health tax. Last year the Minister of Finance announced that employers would be exempt from tax on the first $400,000 of Ontario payroll.

OREA believes that payroll taxes such as EHT deter job growth. In our view, there is no reason why employers should be forced to fund such a large portion of the health care system. We believe that the increased exemptions announced by the government last year indicate they share our concern. We simply suggest they eliminate the employer health tax, not just for small businesses but for all businesses.

We have a number of other comments that are contained in our written submission and we will leave you to review that material at your leisure.

Mr Wood: We want to conclude by offering the government our continuing support for their deficit and debt reduction initiatives, for their emphasis on cutting spending and for the other initiatives to encourage housing affordability. Thank you once again. Should you have any questions, we'd be pleased to answer them.

Mr Pouliot: Gentlemen, it's nice to hear words of enthusiasm — I won't say "vis-à-vis the government." We can deal with that too. We have perhaps, with respect, some opinions that differ. I must commend you. You've been through a lot. Market conditions were not what you would have hoped and you've persevered. Not only were housing prices at a disadvantage from your point of view, no doubt, but your ability to churn, to exchange was also being impeded severely. The market wasn't moving, things were dead. You had a combination, and you've stated the reversal in your presentation, of high interest rates, less confidence in the economy, still a rate of relatively high unemployment. The future looked bleak.

1610

Now, and I'm happy that you've mentioned it, partly due to the existing conditions and partly due to the efforts of the government — and I'm sure they're responsible for the Dow surpassing 7,000. I'm sure that they are responsible for the low interest rate. I'm sure on a daily basis that Mr Eves talks to Mr Greenspan: "How are the kids, by the way, but more importantly, how are you?" They all take their little share when things go good and they are nowhere to be found when things go bad, but among politicians, I'm told, it's a normal reaction.

You have mentioned that the stars are — I express myself in a different fashion — aligned in a perfect fashion. You have low interest rates, prices are not exaggerated. I imagine that's by virtue of a built up inventory. The higher end is still selling at a most reasonable price. There is consumer confidence. You've also mentioned that the government will endeavour to balance its budget. You have lauded the government for a 30% tax cut. I mean, Houdini didn't have that many rabbits in the hat. But I see that you're consistent in your presentation that you're on a roll here and the treadmill knows no limit with you. In fact, you've become insatiable.

You still want them to balance the budget. You would like a big tax decrease. You would like harmonization, you would hit the lower end, and that's where the bulk of your activity is; look at your mean. If they can all do this — as long as we are pleased.

I have two questions for you. What will the interest rates be next year? I promise not to tell anyone. It will be our secret. If you were to gaze at a crystal ball — because I'm a potential buyer — what will the interest rates be next year and the year after? What will the price of housing vis-à-vis percentage increase be this year and next year?

Mr Jim Flood: I don't know exactly how to answer that. I don't talk to Mr Greenspan.

Mr Pouliot: No, but you talk to me. I've got your little card, and if I want to buy a unit, you have to tell me what your expertise is, what your best guess is, do you not? Otherwise, I'm going to go to him and he'll tell me.

Mr Flood: I would expect that 12 months from now interest rates are going to be probably within one point of where they are right now.

Mr Pouliot: Lower or higher?

Mr Flood: An educated guess, maybe a little bit higher than they are right now.

Mr Pouliot: What about your inventory of housing? Will you have less housing available to sell?

Mr Wood: I would tend to think the inventory of housing should remain quite stable. As you know, the land transfer tax rebate that the government of the day implemented in its budget of last year certainly encouraged new construction and that has certainly been satisfying the needs of our consumers. At the same time, Canada Mortgage and Housing calls for an increase of approximately 17% this year. That, together with existing housing, I'd certainly think will meet the mean.

Mr Pouliot: Will the price of housing be higher? Should I buy now?

Mr Wood: I can tell you as an industry that we see the growth and appreciation veering very moderate. We do not see an exaggerated growth that maybe we did, for example, in the 1980s. We think it's going to be moderate. It could very well be in the 3% to 4% range if we're lucky.

Mr Pouliot: So one, two and then of course there will be such an important component of pricing, the CPI basket. Inflation will remain very low. I don't have to scan the futures market on soybeans, terms and words that mean nothing to me, the price of crude, the core inflation, the non-core inflation. So inflation will be pretty well the same, will it not?

Mr Wood: We would certainly assume so.

Mr Pouliot: So I'll wait until next year. How am I doing for time? These are my friends here. I like brokers. They churn things, coming or going. I like these people.

The Chair: You have one quick question.

Mr Pouliot: One quick question. If we were to assume that demographics is everything — for instance, I look across the table. No one is immune, but there are more of them; those people are aging.

Mr Rollins: The same way you are.

Mr Pouliot: It waits for no one. What is your association doing to promote the changes that there are in here? What changes — that's off the record — do you see in terms of supply and demand in housing? Will the houses be smaller? Will people go to condominiums? What will they do?

Mr Flood: I think your forecast is pretty accurate. The demographics would suggest that the population is getting older. Move-up buyers will, I think, continue to move up, but they will probably be looking for better-quality housing, as opposed to bigger housing.

Mr Pouliot: So any one of those fine people across, my distinguished colleagues, you can put them into a smaller place, like 3,500 square feet, but it will be nice. Right?

Mr Flood: If you're looking for the trend, I think the trend is probably towards smaller housing in the future.

Mr Jim Brown: You note in your report that interest rates are so critical to confidence to get people to buy a resale or a new home, and I guess what you said is that pretty much everything we've done in Ontario has had a major influence on keeping interest rates low. The other thing is, you've said too if we keep the faith and we keep doing it, rates should stay low. What will that mean next year in terms of resales, in terms of percentages, if rates stay within the 1%? It's going to stay a hot market?

Mr Flood: We think that given the current conditions, 1997 is going to be a very good year. To the extent that any government does anything that results in increases in interest rates, it will hurt the market. It doesn't make any difference whether it's the government of Ontario or the federal government, the health of the market will depend to a very great extent on keeping interest rates low. One of the keys, as you folks know, to keeping interest rates low is to keep government deficits down.

Mr Jim Brown: So in your opinion, if we keep doing what we did, and maybe even do it a little bit better, rates should stay relatively where they are right now?

Mr Flood: Hopefully.

Mr Jim Brown: Just another question. You know, we're reforming the rent control legislation. Do you have any opinion on what that will do to housing development in Ontario?

Mr Flood: Just a couple of general thoughts. One, we support the government's proposed changes to the rent control regime, Bill 96. We are not yet convinced that the bill goes far enough in terms of creating conditions that will allow developers to build a sufficient quantity of new supply to ensure that tenants get the amount of choice that they need out there. Bill 96 we characterize as a good step in the right direction, but we're not yet convinced that it's going to solve the whole problem, particularly as it relates to new construction.

The Chair: Mr Spina, do you have a question?

Mr Spina: Yes, just quickly. Thank you, gentlemen, for your presentation. I'm encouraged and pleased because what my real estate friends tell me has obviously been borne out on a broader scale by you province-wide.

What I wanted to ask you was, we're getting a little bit of inconsistency here. This morning we had the Ontario Home Builders' Association and they were — I'm probably pre-empting Mr Kwinter's question.

Mr Kwinter: You're absolutely right.

Mr Spina: They were very concerned because they said housing starts were at the lowest in 1995, and they felt it would be probably two to three years before it comes back.

1620

You are extremely optimistic. Your opening statement said that the housing market is rolling, and I appreciate the fact that you're primarily in the resale market. Correct me if I'm wrong. I guess my question is that if the resale market is doing very well, doesn't that automatically stimulate proportionately the construction market?

Mr Flood: The answer to that I think is yes. In our submission you'll note a quote from an official of Canada Mortgage and Housing Corp that essentially says that. I can't tell you too much about the home builders and the level of new construction. That's their area of expertise. I get a sense that they may be in the happy position this year of being able to build just about as much product as they can. It's my understanding that they're already starting to worry about things like potential labour shortages.

Again, I would defer to the home builders on new housing construction, but I think that relative to the last two or three years the home builders are going to have a very good year in 1997. Whether or not it will be a record year, I don't know. I guess it depends on the base.

Mr Kwinter: Mr Spina, you're absolutely right, you did pre-empt some of my questions. Just to answer your question for you, the home builders were in today and they forecast for 1997 48,000 homes. Compare that to 1992 where it was 55,000. You've got 48,000 as opposed to 55,000 in 1992. There's no question it's better than it was last year and the year before that and the year before that, but when you listen to them, they say, "There are a lot of positive signs in the market but the industry is still depressed and clearly underperforming."

The other problem I have is that our mandate really is to try to recommend to the Minister of Finance what we think, as a result of what we've heard from the various delegations that have come here, he should be doing to address some of the concerns. We do get conflicting representations, and I'll give you an example. The agricultural sector came in and said, "You've got to harmonize the PST and the GST," and the manufacturing

sector has come in and said, "You've got to harmonize the PST and the GST." Those two combined make up more than half of the economy of this province.

We then have the home builders. They haven't been in here yet, but I know the position of the restaurant association and I know the position of the real estate boards. They don't want it. They absolutely don't want it because they feel that what is going to happen is going to be applied to commissions and all kinds of other things and it's only going to increase costs to the purchaser, which is going to have a driving effect on what happens.

The challenge that we have is, how do we apportion the various weights? Is it more important that we keep the real estate brokers happy? Is it more important that we have the agricultural sector happy and growing so that people can then through the agricultural sector buy homes, notwithstanding that it may be a hit on the real estate brokers but at least they'll be selling houses? These are the challenges that we have. Do you have any recommendations on that?

Mr Flood: It's more important to keep the real estate association happy.

Mr Kwinter: I'm a broker, you know, and I agree with you. But notwithstanding that, that is the problem that we have.

Mr Wood: If I may answer that as well, I really do believe that by satisfying the thoughts of the realtors we are preserving one primary thing that we want to provide for every person who resides in this province, and that's adequate shelter. That's the primary objective, and by not harmonizing it does help us continue down that line and make affordability better for everyone to have that.

Mr Kwinter: Right now — and I saw an article in the paper this morning — the real estate market is, particularly in Metro, very, very hot. Brokers are having some of the best years they've had for years. Yet again we have the home builders complaining that, as a result of that hot market, they're competing with themselves because houses they built two or three years ago are coming up for resale and they're cheaper because it cost them less to build them then than to build them now. It is a self-defeating kind of a market for the ultimate provider of new stock.

Brokers, regardless of whether they're in the securities industry or the housing industry, when the market is down or the market is up they keep on turning over houses and they get their commission, so it doesn't make any difference. They like it better when there's a hot market because there's a lot more product on the market. But the guy who ultimately builds the stock, the house builder, whether it be multiples or singles, they're the ones who are still not really benefiting from this increased economic activity.

That is a concern to them — and it isn't just them, but an ancillary group, the Canadian Construction Association, on commercial and industrial had exactly the same complaint. The road builders were in here having exactly the same complaint. So what you have is various segments of exactly the same general sector enjoying different benefits from what's going on. Again, as I say, I don't know what the answer is, because it's a challenge. I'd be interested in hearing your comments.

Mr Flood: I don't know what we can tell you that would address the concern of the home builders. It is, at its simplest, a function of supply and demand. If the home builders feel they're competing against themselves, that almost suggests the logical answer is don't build anything new; you won't have to compete against yourself. But I don't quite presume — that's not the reaction they would have to the question. All I can suggest is that any actions that create an environment that is good for the resale market is in our judgement also going to be good for the new home market, and probably the other way around. We're fans of the home building and development industry. They're the people who build our stock. We see eye to eye, I think, on all the issues at a macro level. There are obviously going to be differences of emphasis and you may have isolated one area.

The Vice-Chair (Mr Tim Hudak): On behalf of the standing committee, I'd like to thank the Ontario Real Estate Association for your presentation. Have a good evening.

FEDERATION OF WOMEN TEACHERS' ASSOCIATIONS OF ONTARIO

The Vice-Chair: The next deputation comes from the Federation of Women Teachers' Associations of Ontario. I believe Sheryl Hoshizaki and Sandra Gaskell are appearing before the committee. Welcome to the standing committee on finance and economic affairs.

Ms Sheryl Hoshizaki: My name is Sheryl Hoshizaki. I'm the past president of the Federation of Women Teachers' Associations of Ontario. With me I have Sandra Gaskell, who's the deputy executive director of the same organization. We represent approximately 41,000 women teachers who teach in the public system predominantly, in classrooms across Ontario.

We're presenting today to record and document what we believe the impact of the changes already in the budget has been on children in the classrooms in Ontario. You have before you our document. I'm not going to go through it and read it to you, but I would like to make some highlights.

We're here, as I said before, because we want to present to you the impact these changes have had on children's lives. We also want to present to you the impact we have had on changing this in children's lives. We believe we can make changes in children's lives if we have the political will and we choose to do so.

None of this is necessarily new, if you've read the newspapers. Everybody has, I'm sure, partaken in the debate around the myths and realities and how pictures are presented on behalf of what governments have deemed special interests. However, we'd like to present to you again and once more. It being a fact that we come from a background of teachers, we believe that if we don't get it the first time, we can teach and we can teach again.

1630

The myth of the mere fact that states simply our education system is broken is wrong. It's just simply not true. It's not because we believe as teachers in Ontario that it's perfect; I want to get that very straight. It's just that what happens is the rationale built by this govern-

ment behind that statement forces us as teachers in Ontario to defend the system as it presently exists. That, unfortunately, takes all the time and energy of teachers in Ontario.

On page 2, you have presentation of specifics that demonstrate that in Ontario we do have a high-quality education system. I'm not going to go through that; however, I want to highlight the third point. I think this is very important, because I know that not only provincially but nationally as well as internationally, countries are focusing on a citizenry of readers. It demonstrates that Canada as well as Ontario has competent readers.

Moving on, I don't want to ignore — because probably one of the questions will be around the testing that we know has received a great deal of publication. Testing definitely does measure a portion of student competence, but it's not the only thing that measures student competence and we can't allow standardized testing to be the only measurement in our schools, just as testing in this room would not demonstrate to us the potentials or the academic or intellectual levels of everyone in this room. So we can increase and improve the test scores; there's no doubt about it. It is revealing for us. We know how to do that. We can teach to tests. But in addition to that, what we have to recognize is that the comparisons used in the test do in fact have certain comparative flaws.

First of all, you have to always look at the children you test. I won't go into it, but I think it's really important that we have to recognize the children we're testing in Ontario and the comparison of children who are tested in other countries is just not comparable. The myth that Ontario spends too much money in education has given reason for significant cuts in education this past year. What we must focus on in this myth is how it has been determined. The fact that the Ontario government believes that Ontario spends too much in education is truly dependent on the fact of comparisons to other provinces, and again it's based on faulty comparisons, one example being that it's very difficult to compare one province with other provinces on an average when you don't include that province in the average or you exclude other provinces in the average. That's not really sophisticated mathematics.

At the same time, on page 5, if you look at the top, I think it's really important — this is a very important point on the comparisons of how much Ontario spends per pupil — the money that was not included in this comparison was the money spent in capital costs. There's also what we refer to in education as phantom costs. They were not included in the costs of education in other provinces, but were included in the costs of education in Ontario. That again distorts the comparison figures.

However, given that, as a province we should not apologize for what we spend on education. We believe, if you look on page 5, there are areas that — Ontario is the largest province in the country. It educates over 40% of the student population. These students represent a broad range of abilities and are accommodated within the system. That simply costs money.

I won't read the other two points, but we can't ignore the fact that Ontario has a graduation rate of 75%. It costs money to keep kids in school.

Again, Ontario received almost 30,000 immigrants under the age of 18. It costs money to educate and prepare new Canadians to participate in Ontario society.

In the whole picture, what Ontario spends as a portion of the general economic health and wealth of this province — and you look at Ontario's gross provincial product, that being 7.6% — its education spending is only at 2.4% above the national average. That is not an embarrassment, nor should there be an apology on behalf of this government or this province. Ontario quite simply does not overspend on education, but what's more important, with further cuts to education we can critically undercut and underfund education and we will not be presenting and preparing for the basic costs of education for children to be given opportunities.

The myth that education cuts outside the classroom do not hurt students' education is probably one of the most fundamental problems that we're dealing with right now in Ontario in educating children, and that is the lack of understanding of what it takes to educate a child in Ontario, that learning does not occur only in the classroom and that the classroom does not stand alone. On page 7 it talks about how the Minister of Education and Training released the document — I'm sure it's not new news to you — and it focuses on the three categories.

In essence, what we're saying here, and maybe this assists you and you can remember back to your school days, classrooms do not stand alone. I talked to a teacher this morning who teaches in Timiskaming. She has 28 students in grade 7. Four of those students previously had 80 minutes of special education assistance; they now have none. Two of them were in behavioural programs, one had speech therapy. All those programs are now nonexistent. She is a teacher who truly likes teaching. She has no complaints. She just says it is getting more and more difficult to make a difference in a child's life. That is an issue for us. It means that teaching in a classroom is not in isolation, and on page 8 you see that.

We cannot ignore library programs, whether they are cancelled or closed in schools. I've certainly visited enough schools in the last three years to observe libraries in schools that have been closed. The doors are locked, they are not staffed, they are underresourced. Add to that, if we have user fees or problems around the financing of the libraries in municipalities, we are creating a very serious crisis for children in learning to read.

It goes on about field trips and extracurricular sports activities. These in essence are also part of learning.

Probably one of the most focused myths that we have as an organization, being that we are committed to early childhood education — and we certainly have done as much as we possibly can in educating people on the importance of making the investment early in junior kindergarten programs. To date, we have 26 boards that have cancelled junior kindergarten; probably more easily translated that we have 30,000 young children not attending junior kindergarten now in Ontario.

The question to the presenter prior to our presentation, which I knew would be somewhat of a contrast, was around the deficit. The teachers in Ontario do not believe that the deficit does not have to be attended to. The fact is, if it's attended to at the cost of children in junior

kindergarten, then it will be a very short-term solution. The statistics around the importance and the benefits of junior kindergarten are presented before you.

Other myths and causes for concern we have outlined for you. However, in concluding, I want to reiterate that classrooms truly do not exist in isolation; neither do schools and neither do communities. They're all interdependent. Cuts to welfare impact on health care, on social programs, affect young children and children who attend our schools. They bring that burden into the classroom. They have to be attended to.

I visited a school in Sudbury in November. It was a school that served three government housing complexes. I talked to the principal. It was a junior-kindergarten-to-grade-6 school and it started in September with 214 students. She said she had approximately 187 registered now. Come June, there would be 179 around and half of them would not be the original students who enrolled in that school — a highly transient population. You can imagine the impact any adjustments to the cost of rent in those government housing projects or complexes would make on the lives on those families and the children attending that school.

Teachers in Ontario entered the profession, as I said before, to make a difference in a child's life. It's that simple, and that's it. If this government wants to achieve one simple thing, other than getting re-elected, then we truly believe that the education of children in this province should be at the forefront of the priority of this government. It is the only real investment you make in the future or, as Mr Harris would say, in "a brighter Ontario." Thank you.

The Vice-Chair: Thank you. Ms Gaskell, anything further from yourself?

Ms Sandra Gaskell: No, not at this moment.

1640

Ms Bassett: Thanks very much for your presentation. Of course it's always interesting to look at education. I started as a teacher and things have changed enormously. But it's interesting that I didn't hear any comments from you about the fact that this province has a deficit of over $8 billion and, although we've reduced it in the 18 months we've been in government, we still have to face this problem of spending more money than we're bringing in.

Education spending has increased 82% in the last 10 years in this province while student enrolment has increased by only 16%. Education is certainly a growing expense and welfare is a decreasing expense. We have to look at how we can reduce our expenses. This is just a thought because I have so many friends who are older teachers who are dying to get out after all these years, if they could be bought out, and I have so many friends who are younger teachers who are wasting and rotting on the vine, and you mentioned, I think on page 3 of your summary, about them going and being hired in California.

Do you have any suggestions of what the government could do to help buy out or go in conjunction with the teachers' fund? I think the teachers' pension plan is over $100 million. Could we go that route?

Ms Hoshizaki: I think the question could certainly be directed towards me and the government, because that has been presented as a solution. It's not going to solve the deficit that you mentioned, but what we have found in the past is that it again is a short-term solution. We have a balloon of, as you said, people of that age who are dying to get out and leave in that year, but then you don't have the natural retirement the next year or the year after, which then becomes somewhat problematic.

There has certainly been research and a look at if that would bring more people into the profession and have more people encouraged to retire, but it's something that the government and the teachers have to solve together. It's not in isolation for teachers as a solvable problem, nor is it for the government. I think what would be helpful is if you focus that same solution towards the government, which is part of the pension partners.

Mr Jim Brown: Thanks for the presentation. My wife is a teacher so I hear all sides of the story. As a very small businessman, I look at what we pay per student, say in the city of Toronto, $8,000 per student. With 30 kids in a class minimum, a class then would take in $240,000. I know what my wife makes and if I subtract that, of the $240,000 there's probably $180,000, $175,000 per class. I think that's a lot of money in infrastructure and, without touching the size of the classroom, it seems to me common sense that we ought to be able to save a little bit of that $175,000 outside of the classroom.

Ms Hoshizaki: I can't calculate the absolute exact costs of the conditions your wife is working under if in fact she has 30 students, but my guess is that what we're not looking at is the cost in isolation per pupil as well as the teacher's salary. It is part of, I'm sure, a school building, the plant and the operations of the plant and the support systems that provide services for those children within the classroom. In the context of existing within a fairly complex neighbourhood, there are services provided within the neighbourhood that are attached to that. It's not as simple as calculating it as easily as you have calculated it, and to suggest that is common sense is completely mind-boggling.

Mr Jim Brown: You know what? My wife tells me it's simple, and I believe it's simple. Usually when you reduce things to simple problems, you can come up with solutions. She tells me that she wished that there wasn't as much infrastructure and administration because she could get her job done better.

Ms Hoshizaki: I think that's probably fair when you take a look at a classroom teacher who's speaking personally to you and talking in reference to infrastructure and being able to assign service to an individual child. But if you've got 30 students in your classroom, you do not have simple problems. I will guarantee you you have complex problems, and the simple solution to a complex problem has got us in the state we are right now in education with the proposal that we are overfunding education.

Mr Spina: Just a quick one. My wife has been a public high school teacher for 22 years, so you're speaking here to people familiar with the territory who have heard the arguments before.

One of the things that Sweeney recommended was a reduction of the non-classroom spending, from 47% to 42%. You presented as if this government is fully intent

on wiping out all non-classroom activity and I would suggest to you it is exactly the opposite. We fully appreciate that a teacher is not a standalone person. He or she needs the supports system, and your points are well made about the library system, guidance counsellors and so on. But Sweeney recommended reducing it from 47% to 42%. A 5% reduction in non-classroom activity is equated to the tune of $1 billion. That's what Sweeney said. You don't have to agree with him.

The thing is that we made a $400-million cut and probably we're on the way to making the additional $600 million. The minister has held back on that. Why? Because we are now in the process of restructuring how education is funded.

The Vice-Chair: Mr Spina, the question please, if you don't mind.

Mr Spina: Anyway, we feel that this exchange will allow us to better put the money into the classroom, and I would hope that you would help us to see that because the myths that you're talking about we don't think are myths.

Ms Hoshizaki: I wouldn't be here presenting if we did have a different picture on what are myths and what are realities. I don't want to comment on someone who professes to have a secondary background around what's in class and what's out of class.

I agree. I think what's really important for us is to record and document for you what's important to teachers who are teaching in the elementary system. Some things that have been put forth in a paper on behalf of what is outside the classroom are integral to educating children in the province, and when you make the decisions as a government, we hope you will consider that, that libraries in schools are significantly important to children's lives. That's all.

Mr Spina: That's fair.

Mr Kwinter: Seeing as how everybody is adding their disclaimers at the beginning, I'll have to do the same. My wife is also a school teacher and has been for many years. I also have to confess that I have taught both at the post-secondary and the university levels, so in my background I've been a school teacher.

We've had representations and there's a lot of controversy about the non-classroom expenditures. We have the minister saying that out of every dollar 80 cents goes to non-classroom expenditures. We've had educational organizations come to see us and say the real number is only 4%.

We had the Ontario Hospital Association come to see us today with exactly the same complaint. The Ministry of Health is saying to them, "Here are all of these expenditures that are non-patient-related." When they start talking about it, they're saying heat and light, as if, if you have a classroom or a hospital, you don't have to heat the place, you don't have to light it. They're saying school buses are non-classroom, libraries, vocational guidance, music programs. All of these things that go to the quality of education — not the quality of life, the quality of education — are effectively non-classroom expenditures and, "Surely we can cut a lot of this stuff out."

Having said that, Ms Bassett just happened to use a figure, saying that educational costs have increased dramatically over the last 10 years, but so has education. You can't compare what is happening today in the classroom and what happened even 10 years ago. All you have to do is just take a look at the so-called new economy with the computers. I've got seven grandchildren. I've got grandchildren who are three who run circles around me on a computer, and I like to think I have some capability on a computer. That's their life. They don't know another life. They learn that and that has to be transferred into the classroom.

There's a resultant cost, a substantial cost, and you can't just look back and think: "Let's go back to Leave it to Beaver days. Let's put that kind of money into the situation where mother is at home greeting the children as they come home for lunch and making them their lunch and sending them off to school with their apple." We have totally different situations that require totally different funding. Do you agree with that?

1650

Ms Hoshizaki: I absolutely agree with you. There's no doubt about it that, first of all, I'm in a room of people who have very strong relationships with people who are in education, so they probably know that as a fact, but there have been significant changes. The kinds of children that are coming to us today come to us with more complex problems, for many reasons, but also because many of the support systems have been pulled out from under them. That is a serious issue. Poor children learning in school is a serious issue for teachers right now in Ontario and somewhere along the line a society has to respond to that complexity. One or two or three poor children in a classroom of 25 in grade 3 has a significant impact on your ability to make a difference in all the children's lives in that classroom.

Mr Kwinter: Another statistic that you brought out that I was aware of: When you rank comparisons of per pupil spending in North America, we in Ontario rank 46th out of 63. One of the things that everybody wants, and this isn't a partisan kind of thing, is to make sure that we are as competitive as we can be and that we have that ability. You saw in the budget yesterday that there is a feeling that unless we invest in our children, unless we get them to the point where they can compete intellectually, in the future we are not going to be able to compete as a country.

I'm also a very, very strong adherent of and believer in preschool education. Again I tell you, I look at my grandchildren and see what they're doing. A couple of my grandchildren are younger than five and already speak three languages. They speak it without thinking about it because they don't know any differently. They just think that's the way it's supposed to be, because their parents are really into that kind of thing.

I think that is an opportunity we are missing, and if there is one place, other than health care — because we have a responsibility to do that — where any government has an obligation to make sure they're spending, not wastefully, but spending the money, it's in education. I just want to let you know I'm totally supportive.

I just want to make one comment, so you know in case this particular document is being circulated other than here: You have made a mistake that I'd just like to

correct. You say Ontario is the second-largest province in Canada. I'm sure we all know, and you said actually in your presentation, that it is the largest province, but I want you to know that the text says that we're the second-largest.

Ms Hoshizaki: Blame it on the computer.

Mr Pouliot: Thank you for your excellent presentation. I wish to assure you that some of my best friends are teachers.

Ms Hoshizaki: I know that.

Mr Pouliot: Further, you imputed motive, but positive motive, talking about a strong relationship. I will not term my relationship with some of my best friends as strong or weak but it has been consistent, to say the least, and I would term it as interesting.

You must fear, on the eve of the provincial budget — you're very much au courant. You've read the terms in the papers; it appeared all over in the dailies, about inventing a crisis. I'm not the one saying this. I'm just drawing off memory to relate some of the phraseology that was used that sent shock waves through the teaching community.

You've also read, with some anxiety I'm sure, about the need to reform education. When I read these things as a neophyte, a novice reading the daily newspaper, I sensed that there was a negative tone. If I had been a cynic, if I had been in a profession where cynicism abounds as the order of the day, I would have said: "Maybe they're seeding. Maybe they're planting. Maybe they wish to prepare the general public — taxpayers — for what's ahead." Then, shortly, I read about amalgamation. That did not bother me as much. But I read about the tax break, that now the province was to take over the responsibility of education. They were to deal with the teaching profession.

I also happen to know, by reading the financial pages that my friend opposite produced in great quantity, about the teachers' pension plan. I'll need your help. I'm not so sure whether it's $43 billion or $44 billion in the teachers' pension plan, the one that's headed by Mr Claude Lamoureux. I also read, if my memory serves me correctly — again I need your help — that it is actuarially funded, that is has no liability in the future even if you were to project a time going more than 30 years. It's fully funding; it's gone by leaps and bounds; it's doing very well. I know the province puts in 50%; they are the employer. Well, they say they are the employer, but the collective bargaining is with the school board.

When one of my good friends in the teaching profession sees all this, and when they talk about the need to compete — you've cited one example of some place in California where the teaching salary is $33,000. Some people are dying to get out but they never quite die, those people. You still have a factor 90 under the provisions to get out, the average of the most lucrative three years, right?

Interjection.

Mr Pouliot: Five it is, not three. Thank you. It's fully indexed. They pay a supplementary 1%. What about factor 85? I don't see a lobby — as I'm an avid reader — under your figures. Canadians are avid readers. There doesn't seem to be a big push to lessen the factor from factor 90 to 89, 88, 87.

My question is simply this: What do you see happening with the government of the day? You heard rumours that they were going to cut anywhere from $650 million to $800 million in the fiscal year and that education was to be the target, the focus, and then the Minister of Finance comes through and doesn't say we're going to cut anything. Do you still feel under the gun? I'm talking about people like yourself, people in the classroom, the front-liners, not the directors of education who make more money than the province, not the reduction of school boards, but where the real expense is and the real responsibility, which is to educate, like Mr Kwinter said, our future, our children. How do teachers feel?

Ms Hoshizaki: How do teachers feel in the province? I just think, in response to the creating of the crisis, which has probably got more airplay than anything else in the province around education, if it was a motivation for improving education, it didn't do that. It made people who are providing the service probably more defensive than helpful. If I have one message for the Minister of Education, it's as simple as that.

If inventing a crisis or creating a crisis is rationale for justification of a tax credit or dealing with the deficit, then that is problematic. There are different ways if you want to improve a system. If you're a leader of a system, which Mr Snobelen is, you have a responsibility to ensure that people participate in wanting to improve a system. Improving a system is not by finding rationale of what's at fault for it and then believing that we're all going to jump in and say, "Yes, we're going to participate in improving the system by taking more out of it."

What we've presented to you today, we believe, are concrete examples of taking more out of the system. We knew it was a billion dollars. This is not new information we've just figured out in the last year. We knew back when $400 million came out that another $600 million or more was going to come out. We calculated very simply because we knew the target for this government unfortunately was to deliver the promised tax credit. We hope that isn't the reason for it, but that is a problem.

However, how do teachers feel? It's the wrong motivating factor. It didn't make teachers feel good, and they didn't feel great on the first day of September this year, when Mr Snobelen spent all of his time telling the press the teachers are overpaid, overworked for the quality of education they're delivering in Ontario. That is a problem.

Mr Pouliot: Like my friends — and also true stories; they're incapable of departing from the truth and so am I — my wife taught for 35 years.

Ms Hoshizaki: I know.

Mr Pouliot: Actually, it's her sixth year of retirement.

Ms Hoshizaki: Yes, I know. That's why you knew the benefits so well.

Mr Pouliot: She started at 12. Well, I can't count too well, but the "2" is true. You possess your friends. I guess you court what you are and sometimes you marry what you are, so it's a close environment.

1700

I have friends who are teachers, and they kept saying in our small community, Manitouwadge — we're 800 miles north of this big city — that the school boards are

growing by leaps and bounds. I kept telling them the director makes more money than Bob Rae, that there weren't five directors of education in the province who made less money than Bob Rae, and Bob Rae was the Premier then. But they kept saying they go to Sault Ste Marie, they go to Thunder Bay, they come here for two hours and it's consultant this and that, with a bit of exaggeration thrown in, a bit of emphasis for illustration; you understand that.

I knew of your concern. They've made a commitment — and we'll see — to protect and to enhance classroom education, and that's what you fear in your presentation, but that's what you're here for. You shouldn't have to re-emphasize that if you were to believe them completely.

The Vice-Chair: Thank you, Mr Pouliot. That concludes the time for this presentation.

Mr Pouliot: Do you believe that they will live up to their commitment in the next budget by respecting your presentation?

The Vice-Chair: Thank you, Ms Hoshizaki and Ms Gaskell, for your presentation today. Have a good evening.

ONTARIO NATURAL GAS ASSOCIATION

The Vice-Chair: The next deputation is the Ontario Natural Gas Association. I have listed Paul Pinnington, president, and Bernie Jones, coordinator. I think Kenneth Smith has joined us as well. Gentlemen, welcome to the standing committee.

Mr Paul Pinnington: Thank you, Mr Chairman and members of the standing committee. My name is Paul Pinnington and I'm the president of the Ontario Natural Gas Association. Accompanying me is Mr Bernard Jones, to my right. He is president of Blue Apple Consulting and a resource person for the association. On my left is Ken Smith, who is a member of the association's finance committee and also director of taxation for the Consumers Gas Co.

We are pleased to be with you again today and thank you for the opportunity to join in these important deliberations. This is our 10th consecutive appearance before the committee, and we do appreciate the opportunity. On behalf of the members of the association, we have prepared a discussion draft entitled Restructuring For a Competitive Economy, which has been distributed to the members of this committee. Mr Jones has prepared a brief overview of this document and he will concentrate in particular on the conclusions and recommendations. He will take us through that document momentarily. I would ask your concurrence, Mr Chairman. I propose that my colleagues and I would respond to questions at the end of his presentation. The discussion draft has been provided to the clerk and the representative of Hansard, I understand, and additional copies have been presented. With your permission, I ask Mr Jones to proceed.

Mr Bernard Jones: Good afternoon, ladies and gentlemen, Mr Chairman. I intend to go through the document rather speedily, but if you turn to pages 3 and 4, you'll see the recommendations listed. If you would take the trouble to mark each recommendation with the numbers 1, 2, 3, 4, and 5 through 7, then as I go through the text I'll refer to the recommendations. I'll be dealing with them in a slightly different order than they appear in that list.

By way of introduction, let me begin by stating that the brief addresses four subject areas: (1) the economy, (2) planning for our fiscal future, (3) taxation, and (4) energy sector restructuring.

"Who does what?" is the fundamental question being addressed in the current hearing on the Ontario government's policy on public sector restructuring. A parallel who-does-what debate is occurring regarding restructuring of the provincial electricity system for competition. Time must be found also to address this very important issue.

Natural gas commodity supply is already fully competitive. A decade of experience with competition in natural gas shows that positive benefits will flow from introducing competition in electricity in Ontario. Responsibility for power supply must shift from the Ontario Hydro public monopoly to competitive generators; responsibility for transmission and distribution delivery services must be vested in regulated monopolies that are at arm's length of generators; and regulatory responsibilities over the municipal electric utilities must shift from Ontario Hydro to an independent regulator. Fortunately, Ontario's restructuring debates are occurring against a backdrop of an improving economy and a structurally sounder fiscal situation and outlook, so the opportunity for positive change may never be better.

Turning briefly to the economy, the prospects for steady and stable growth in the Ontario economy are brighter than in recent memory. We share the Minister of Finance's optimism that employment will grow and the unemployment rate will decline. However, we must be mindful of the fact that Ontario's economic recovery has so far relied almost exclusively on exports and greatly on recovery in the US economy. The unemployment rate is unacceptably high and we must avoid falling into a trap of believing that a 7.5% to 8% unemployment rate is the best that we can hope for. There are some people who take that position. We are not among them.

The Ontario natural gas industry is contributing to this more broadly based economic expansion. The gas utilities alone plan to invest many billions of dollars over the next five years on pipelines, compressors, compressor stations and other capital equipment. The industry, as you may be aware, has about $10 billion of assets invested in the province, employs 8,200 people and paid wages or salaries of over $378 million, and last year paid more than $300 million in taxes.

It's our position that we must begin planning our fiscal future. ONGA commends the Minister of Finance for adopting prudent economic assumptions to underpin the government's fiscal projections. The government intends declining budget deficits and a balanced budget by the year 2000-2001. What happens subsequent to achievement of the budget balance watershed will depend on advance planning.

ONGA members remain convinced that based on the historical record, non-reversal of the fiscal gains must be a primary objective. In the US, debate continues on a proposed constitutional amendment that would require the

federal government there to maintain a balanced budget. Most states in the US are required to balance their budgets. In Canada, the federal government is not bound in this way, nor are the provinces, with the exception of Alberta, which has passed budget balance legislation. Other provinces I understand are examining in various levels the possibilities. In our 1994 pre-budget brief, ONGA recommended a debt-reduction strategy and we believe we need to begin to establish criteria for debt reduction that is fair to everybody.

There are several reasons why it would be prudent to make plans now to retire the debt. These include protecting the province's credit rating, insulation against renewed inflation and higher interest rates, attracting business investment and employment, and it would be fairer to future generations.

As a second priority, a fiscal dividend for taxpayers in the form of tax reductions will be needed to help offset the large scheduled increases in contributions to the Canada pension plan. Of course, increased spending will be beneficial where it is directed at necessary projects in important areas such as education, health and the environment.

This brings me to the first of our recommendations, which is item 1 on page 3, if you've marked it: ONGA recommends that no later than 1998 the government engage in a public debate on post-budget balance strategy and priorities and on the question of balanced-budget legislation.

Turning now to taxation, this is an issue which is important in our fiscal future. We support efforts to reduce the tax burden and streamline tax administration, but the current lack of predictability in taxation at the federal and provincial level complicates private sector decision-making and discourages investment in the province, we believe.

Looking at municipal taxation for a moment, although natural gas pipeline networks require virtually no local services, in 1996 the gas utilities paid more than $123 million in municipal taxes. The compressors and pumps which are necessary for transporting gas through the pipes are included in the municipal property tax base, whereas they are actually machinery and equipment which fairness suggests should be exempt from property tax. Therefore we recommend this exemption, and that's item 7. As well, uniform rates to all classes of property are the fairest way to apply property taxes.

Item 3 tells you that ONGA recommends that ONGA members seek government assurance that the realignment of provincial and municipal responsibilities and fiscal resources that is now being debated will not result in discriminatory and unfair taxation for industry, including the gas industry, and the proliferation of arbitrary user fees and charges, causing added tax burden on the industry during economic recessions or other periods. The industry is feeling rather vulnerable because of the uncertainty in this area.

1710

On another, more minor matter, which is item 7 on your list, we believe that the Municipal Interest and Discount Rates Act should be amended to make it mandatory that all municipalities pay interest on tax overpayments. Currently, only a handful of Ontario municipalities treat taxpayers fairly in that regard.

On provincial taxation, ONGA commends the government for taking positive steps to reduce the personal income tax burden, lower the payroll tax on small business and restore consumer confidence. However, the corporate minimum tax is simply unjust. The Ontario Fair Tax Commission recommended against a corporate minimum tax, and in our January 1992 brief to the Fair Tax Commission, ONGA had earlier recommended a similar conclusion. We continue to believe the tax to be unjust and arbitrary, and it's levied in addition to the long-standing Ontario capital tax, which is payable regardless of corporate income and thus already constitutes a form of minimum tax.

Therefore, item 5 on your list: We recommend that the Minister of Finance review the rationale for and performance of the corporate minimum tax with a view to either its removal or narrowing for more equitable application.

There are also opportunities for improvements in sales taxation. Starting April 1997, the federal government and three Atlantic provinces will blend the GST and provincial sales tax into a single harmonized sales tax applied across a common range of goods and services at a rate of 15%. The harmonized tax will be collected by Revenue Canada initially, but ultimately by a joint federal-Atlantic tax commission. There are many items taxable under the GST but previously exempt from provincial sales taxes to which the 15% tax will apply, including gasoline and diesel fuel, fuel and electricity. ONGA finds it incongruous that essentials such as food and shelter are not taxed whereas residential energy use, which is also an essential, is taxed.

Prior to the introduction of the GST in 1991, ONGA had advocated to the standing committee the harmonizing of federal and provincial sales taxes into a sales tax levied on a uniform base of final goods and services, with essentials such as food, shelter and residential energy excluded. The approach adopted for the Atlantic provinces has positive and negative features. I won't go into those. I'll just simply say that in ONGA's opinion, the federal-Atlantic provinces agreement appears to offer a basis for Ontario and the other non-participating provinces to negotiate a truly national sales tax under one tax administration, one set of rules, and a common set of tax-free necessities, including food, shelter and residential energy.

So item 4 on your list: ONGA recommends that the standing committee advise the Ontario Minister of Finance that if Canadians must pay a federal sales tax, then he must take the initiative with his provincial colleagues in seeking an equitable and practical way of expanding the federal-Atlantic initiative into a single national sales tax. Such a tax would exempt necessities, as I have mentioned. The minister should also encourage consolidation of federal and provincial corporate income and capital tax administrations.

Another area actually where there has been cooperation between the federal and provincial governments has been with the creation of a viable natural gas vehicles industry. This industry is located principally in Ontario. There are some current tax exemptions that are detailed in the document that apply and help this industry.

It is estimated that less than $6 million in government revenues have been forgone to date as a result of these incentives while the economic benefit from NGV runs in excess of $100 million added to GDP. A substantial industry has developed. Ontario has over $33 million invested in fuelling facilities and refuelling appliances. More than 4,000 person-years of skilled employment have been created in a list of towns which I've put in the document, including — I'll just list a few — Kingston, Tilbury, Ottawa, Chatham, Kitchener, Mississauga. The Cummins natural gas V10 engine, which is in the Ontario-built Orion buses and used by the TTC and Hamilton Street Railway and sold throughout North America, is one of the technological breakthroughs that government and private sector partnership has helped do.

So item 6, we are recommending that the province continue its incentives for NGV, without which the further technological development of market growth necessary for a self-sustaining industry will not occur. Loss of fiscal incentives would mean the end of the industry as we know it today, and Ontario would lose its worldwide recognition as a centre of expertise for NGV technology. Members of the committee will be aware that natural gas vehicles bring environmental benefits and they substantially reduce harmful vehicle emissions.

The Ontario Energy Board is presently conducting a 10-year review of the natural gas industry, in consultation with industry stakeholders, and that's with a view to enhancing competition at the retail level in the gas markets. Retail competition is already well-established in the gas industry, but further reforms are under review to make it more efficient. Currently, almost two thirds of all natural gas sales by volume are non-utility sales, and it may surprise you to know that many large gas users and hundreds of thousands of residential gas users purchase their gas from someone other than their local gas utility.

In the interests of customer choice, market efficiency and regulatory fairness, it is important that there be as much synergy as possible in the changes occurring in the natural gas industry and those which are looming in the electricity industry in this province. Competition in electricity is inevitable. It's already occurring across North America, and the Ontario electricity system cannot remain a protected island.

The Macdonald report acknowledged a broad consensus among electricity system stakeholders that the status quo in electricity must change. A multi-stakeholder alliance has subsequently formed representing an unusually broad cross-section of interests, including small and large business, the municipal electric utilities, independent power producers, the Ontario natural gas industry and the Board of Trade of Metro Toronto. The depth of this alliance I think is proof that the status quo is unacceptable.

The stakeholder alliance which I've just mentioned proposes to drive the focus of the electricity business from the large electric monopoly downstream to the customer. The focus must be on creating competition in generating and marketing. The electric transmission and distribution systems must join the Ontario natural gas distribution utilities as regulated monopolies, governed by congruent and modern regulation. I'd like to stress that it's our view and the view of the alliance that privatization need not be an issue at this time.

SAC has proposed that the government act quickly to: separate the transmission system; set a time frame consistent criteria for municipal utilities and Ontario Hydro retail to work out the restructuring of local distribution through regional studies; and establish a transition agency with the mandate and authority to effect the changes needed to introduce a competitive electricity market.

So item 2 on your list of recommendations: ONGA members recommend that the standing committee support SAC in urging the government to introduce competition in the electricity system and regulate the electricity transmission and distribution monopolies. Creation of a level playing field in competition between competing energy forms, including natural gas and electricity, is essential for our future economic competitiveness and for customer choice.

In conclusion, ONGA believes that the government is making good progress towards restoring Ontario's fiscal integrity and that the benefits can already be seen in higher business and consumer confidence and the improving economy. In our opinion, it is now time to consider the strategy for the post-budget balance period. Some elements of that strategy have been discussed in this brief. This concludes our presentation. Thank you.

The Chair: Thank you very much. We begin a four-minute round of questions with the official opposition.

Mr Kwinter: Thank you very much. As always, I enjoy your presentation. I have a couple of questions. You make a point about municipal taxation, and you feel that because basically your compressor stations and pipeline networks are really chattels as opposed to fixed assets, I guess you'd call it, or equipment, they shouldn't be taxed in the same way as property. Is that fair?

Mr Jones: That's correct. Ken, would you like to deal with that?

Mr Kenneth Smith: Yes. I think we're just talking about the compressors and the pumps, not the pipeline itself.

Mr Kwinter: How do you handle it on your balance sheet? Do you depreciate them with a straight-line depreciation?

Mr Smith: Yes. We depreciate all of our pipeline system, including the regulators, compressors, pumps, in total, on a straight-line basis, yes.

Mr Kwinter: How do you reconcile that? If on the one hand municipalities are taxing you as if it were the same thing as real estate, where you don't get that kind of depreciation, and on the other hand on your balance sheet you're depreciating it down to the point where eventually you have your equipment on the books for nothing, really, I assume, if it's old enough and you haven't replaced it, how do you reconcile that?

1720

Mr Smith: I think we're replacing the equipment constantly, but we are comparing it to other industries where the equipment, which again on other industry balance sheets is depreciated over time, is not included in the base for property taxation. We're arguing that our industry is similar and the equipment should not be included in the base for property tax.

Mr Kwinter: I'd also like to spend a little bit of time on the natural gas vehicles. It seems to me that over the

years, every time you make a presentation you talk about the opportunities in that particular sector, and I have to admit this isn't something I follow very closely. I haven't noticed, and I may be wrong, an appreciable increase in the utilization of natural gas in the vehicles. Is that the case, or am I just not aware of it?

Mr Jones: In 1990, the number of vehicles that were actually at that time converted was about 9,800, and it went up steadily to 16,500 by 1994. It dropped marginally in 1995, but the rate of increase in conversions, the actual number of net conversions, was higher in 1995 than in 1994.

So if you looked at that very recent experience, there's been a bit of a levelling off, but the rate of expansion is a function of relative prices of competing fuels, so I don't think we'd expect to see a constant uptrend. There has to be a break in the trend occasionally, so what we're saying is we're hopeful that the trend would be upward again.

Mr Pinnington: May I just add to that response as well that I think you have to look at the manner in which these vehicles are being used. I think we've made significant progress in what we call the dedicated vehicles or fleet vehicles, delivery facilities, the Eatons of this world and the trucks they use, the post office, taxi cabs. The Consumers Gas and Union Gas fleets, for example, are primarily all driven with natural gas at this point in time, and there have been quite significant inroads made into the public transportation sector with buses.

Where the growth has been slower and less encouraging is in the broad general vehicle population, and I think that's primarily because we are faced with the problem of chicken and egg. The number of stations, where they're located, the convenience of refilling for the average person is just not there yet. The feeling in the industry is that if we build the infrastructure around the dedicated fleet and get some of the filling infrastructure in place, then this other market will gradually follow.

Mr Pouliot: Gentlemen, thank you for your presentation. Under the Assessment Act, there is a provision or allocation made for the mining sector. For instance, the well underground is not taxable. Profits are, of course. There's a depreciation allowance also to give, and the sector feels that it is not too harshly done with because it's a non-renewable resource.

Yours is a non-renewable resource. You're in the business of transporting, of delivering, what has been mined, natural gas. When it comes to the municipal level outside the boundaries, the mining sector is exempted from being assessed at the municipal level for residential purposes. That money, which hypothetically doesn't exist here, would suffice for the school boards and also general purpose, which is picking up the garbage, running the swimming pool, etc.

What is the difference between a pipe that runs from point A to point B and is being assessed along with other machinery once it reaches the boundaries of municipalities, and a mine site, be it a smelter, which operates within the boundaries of the municipality? Should they be treated the same, as in your pre-budget presentation? Why should you be exempt? Why should it be different?

Mr Smith: We are not asking for exemption on a pipeline; it is the machinery and equipment that is attached thereto. I'm not an expert in property taxation myself, so —

Mr Pouliot: Yes, but on the other hand, wasn't your depreciation allowance amortized over fewer years? Did you not get a break vis-à-vis amortization for that ministry to minimize the impact of the taxes?

Mr Jones: You've raised an interesting question. I'm not sure we have the appropriate answer for you at this time. It is an interesting question. There is an analogy.

Mr Pouliot: Thank you kindly, because I want to bring you back to number 2. Thank you for the guides when you talk, and rightly so in this, about the need to legislate to enforce that you balance the budget, and then you wish to have lobbyists. It's not vulgar; it's the right way to put your best foot forward. People learn by your instructions, by being exposed to what you do, and you do it well.

I see you're torn. You say we should have a balanced budget by the book to which we must adhere. These are good times; things are really good now; things are changing. But there are cycles also which are traditional, are fundamental, and that impact will keep going. Maybe we won't recognize it or term it the same as before, but it will definitely happen. Given all the other changes, if you're bound by legislation that says that you must balance the book and must do so by certain times, how much flexibility are you factoring in in terms of the timetable? It's an important component.

I'll give you an example. The government had a choice to do all that and made several, I would imagine, judicious choices. They had up to $11 billion when they took office, so they ride an economic recovery. Good for them. Timing is important. Then they say, "Now we're going to add one more year, because we don't want to really dislocate the system in balancing the books, and we're also on the hook with a 30% tax decrease." Should the cycle hit, and you're faced with the legislation, one would have to — when you commend the government, you must have faith in the administration of the day, regardless of stripe. If a negative cycle hits, they would have to make a difficult choice: either enlarge the timetable, as in "This is going to take two more years, but we're on the right track"; or raise taxes — they can't do that; they're cutting taxes by 30%; or really impact the system negatively, where it would take a much longer time because they would dislocate the system.

When you made those recommendations, I wonder in terms of timetable and in terms of all the fundamentals, how much time you have given them.

Mr Jones: What we've done is recommend that this should be a public debate. You've raised very important questions. It's not an easy matter to deal with. The United States has been examining this for at least 10 years and they still haven't come to a resolution. Alberta has; of course, Alberta's in a relatively good financial position. Nevertheless, out of that debate might come better ways of dealing with fundamental changes that happen at the economic and fiscal level, even if it didn't result specifically in legislation that forbade the running of deficits. We're saying, at least get the debate going; begin the process.

The Chair: Moving to the government side, Mr Martiniuk.

Mr Martiniuk: Thank you, gentlemen; an excellent presentation. I want to deal with harmonization of the GST and PST. We had a presentation earlier from the real estate industry, who said: "No way, Jose. That will kill our industry." When we deal with harmonization, as they've done in the eastern provinces, obviously, you're extending the PST to certain things or services not presently covered by that, and one of those things would be new housing.

1730

You as an industry depend upon the sale of your product, new demand through residential housing, through industry, yet about the very harmonization you're advocating the building industry comes and tells us that harmonization will decrease the demand for your product because there won't be construction going on, whether it be residential singles or residential multiples, and it could also possibly affect the commercial and industrial building going on in Ontario. What do you have to say to the building industry when you make your presentation?

Mr Jones: Every industry comes at this from a slightly different perspective. We've tried to look at this from the public interest point of view, broadly, and to say that if you have harmonization, the savings in administration and compliance would be quite substantial. We haven't identified a particular tax base. We're not saying that the current tax base or the one chosen by the Atlantic provinces and the federal government is the appropriate one. It might be possible to make certain exemptions which might include sectors such as housing. It's possible.

We don't think enough work has been done. There hasn't been enough goodwill, if you wish, put into the discussion so far, so we'd like to see a little bit more effort made that way. Would you like to add to that, Ken?

Mr Smith: I'd like to stress that it was the administration end, the duplication of the system of tax collection, assessment and audits, that is a cost to both government and to industry, the additional cost on the taxpayer, that drives us towards looking to harmonization.

Mr Rollins: Thanks for a good presentation. One of the other figures we tossed out last year when Mr Martin and Mr Eves had the meeting of minds to put the GST and PST together is that under the conditions they offered it would have cost the taxpayers of Ontario an additional $4 billion. Mr Eves chose not to listen to that.

You people recommend that we adopt some of the principles of the Macdonald report. You tell us we should open up Ontario Hydro. What is your recommendation to free up the market when Ontario Hydro has an excess of power available and also a debt which is the driving factor in whether we can be competitive? How do we deal with those two things under your recommendations?

Mr Jones: Let me preface it by saying that the stakeholders' alliance which includes that group of people I've mentioned previously, which is really quite a significant alliance, have all come to a common position on these principles in full knowledge of the fact that Ontario Hydro has significant debt and that there's always the possibility of stranded assets.

The Association of Major Power Consumers in Ontario has conducted research which indicates that even if the price of electricity were to drop, because it has a surplus of power at the moment, it could fall and still not strand assets. The other point to bear in mind is that the experience of the gas industry shows that even if there were some stranded costs as a result of competition — because there are no guarantees — there are mechanisms to deal with that. The important thing is to note that those costs should be put on the ratepayers that use the system, not on taxpayers.

The Chair: Thank you very much. We appreciate the Ontario Natural Gas Association appearing before us and giving us your views for input into the pre-budget consultations.

CITIZENS FOR PUBLIC JUSTICE

The Chair: We now come to the Citizens for Public Justice, Mr Vandezande and Mr Tobias. Welcome to the committee, gentlemen. We'll have 30 minutes together. If you'd like to go over your brief, we'll then fill in our extra time with questions.

Mr Gerald Vandezande: Thank you, Mr Chairman, for this opportunity to appear before the committee. My name is Gerald Vandezande. With me is my friend Rick Tobias, the executive director of the Yonge Street Mission. Mr Tobias will begin our presentation and I will conclude.

Mr Rick Tobias: I want to thank you for the opportunity to be with you today. The Yonge Street Mission is a church-based charity that came into existence 100 years ago specifically to serve the poor of the city of Toronto. I came to join the mission 13 years ago to take over a centre on Yonge Street specifically to work with street youth, and seven years ago became the executive director of that centre.

The mission's main catchment area has always been the downtown core, and in the past number of years it has increasingly been the lower east side of the city of Toronto. We run four centres: We run a program called the Christian Community Centre, which predominantly works with women and children; we run a centre called Evergreen, which predominantly works with street youth; we run a program called Genesis Place in partnership with the province that predominantly provides housing for downtown residents; and we run a program called Amen House on Queen Street, which works with rooming-house and ex-psychiatric patients in the core of the city.

Beyond that, we operate the third-largest food bank in the city of Toronto, a health care centre that last year had about 6,000 visits, employment training programs, drop-in centres and a used clothing store. We also offer professional counselling, feeding programs for children, youth and seniors as well as a whole range of recreational and skill development programs.

The community we serve is one of the most economically deprived in the nation. It has been said that the lower east side of the city of Toronto has one of the highest concentrations of poverty, welfare recipients and unemployment in the nation.

The impact of the welfare and social service cuts on this community has been very harsh. Welfare cuts resulted in approximately $13 million in lost income to

our neighbourhood in the past year. In addition to that, millions of other dollars were lost to the neighbourhood as the agencies that we partner with were downsized, ceased to do their own spending in the community, ceased to provide their own services in the community and as the staff who would work in that community stopped doing their own spending. As I've noted in our report, we estimate that our staff, as an agency, probably spends easily in excess of $100,000 a year within the area of several blocks of our agency. As other agencies are downsized, we expect that their spending in the community has also been cut. The end result has been a significant economic downturn. We regularly talk with businesses in the community who talk about the impact of all of those cuts on their businesses and what it has meant for their staff.

The Yonge Street Mission as an agency has not been directly impacted by any of the budget cuts of the past year, predominantly because we don't receive a lot of government money, nor have we ever tended to receive a lot of government money. The impact for us, however, has been indirect. The reality is that we have been significantly overwhelmed by what has happened to us over the past year. In 1994, the demand on our food bank decreased by 6%, and in 1995 by an additional 5%. In 1996, the demand on our food bank has gone up by in excess of 40%. This past summer we ran out of food for the first time in the 13 years that I've been at the mission, and we now regularly cut back the amounts of food we provide to individuals and families. Seniors, children and the severely disabled have all seen a reduction in the amount of food that we actually deliver to them as an agency.

This fall as we approach Christmas, the Daily Bread Food Bank, who we partner with, has informed us that it can no longer continue to provide us with the food that we've received historically from them, at least at the same levels. That means that our staff now spend more time than ever simply recruiting food and trying to find food, as opposed to delivering some of the other soft services, which perhaps have the possibility of resulting in more long-term change. The reality for us is that it's only a matter of time before we face, as an agency, a very severe crisis, and only a question of time before we regularly have days where we simply say, "I'm sorry, we don't have food any more."

The change in demand on food has come from families who used to get by on welfare perhaps until the 27th, 28th of the month, and now all of a sudden run out on the 23rd, 24th of the month. It has also come from families who used to get by on welfare without food subsidy and who now all of a sudden find themselves needing to come to us because they're not getting by any more, and an additional new demand as people who have lost employment in the past year all of a sudden start arriving on our doorsteps.

1740

If we move from our centre at Gerrard and Parliament over to Evergreen, the mission's centre for street youth, we've experienced approximately a 50% to 60% increase in the number of youth attending our centre over the past 15 months. As we've looked at that, our guess — and at this point it's simply a guess — is that is not due to lots of new youth on the street. Rather, instead, it's due to youth coming to our centre who once used to go to other centres. As those centres have been forced to downsize their programs or cut back their programs, youth have come looking for another place. Quite bluntly, it means that they arrive at our centre a little frustrated, a little angry because we were not their prime service agency of choice. All of a sudden we become the only agency available for them.

It has simply left our staff overwhelmed. We have historically been one of those agencies in the city that has held on to staff for a very long time. Burnout has never been a major issue for our staff. However, burnout in the past year has become one of the most frequent discussions staff has had, as the tendency to violence, being overwhelmed by needs, as those processes simply impact our staff. The end result is that we are providing less care for each individual young person, we're experiencing increased violence, increased stress load on our staff and our expectation is, and it has already begun to happen, increased staff turnover. We have now for the first time begun to lose staff simply saying: "We can't do it any more. We're at the end of our rope."

I spoke a lot in the past six months at service clubs and service agencies. I have said to those service clubs and service agencies, "If we were a mutual fund or if we were a business, you would want to invest in us like crazy, because we're experiencing a 40% to 50% growth rate clear across the board." The reality is that we are not that; the reality is that our goal is to be out of existence; the reality is that we're experiencing a growth that we cannot sustain and that will eventually crush us.

Thus, I come to you on behalf of the mission and on behalf of the people we serve simply asking that the government refrain from further budget cuts, both to social services and to welfare. The impact of those further cuts would literally be devastating to those we serve and to our resources. The Yonge Street Mission has a very wide support base, a very loyal support base, but we are convinced that the individuals and companies who support us will not or cannot support the increased demand on our services. Therefore, our expectation in the future is that without change, we will be pushed to a significant expansion first and then to a significant reduction as we find ourselves unable to contain that expansion.

Mr Vandezande: I would like to begin by drawing your attention to the single recommendation that our organization is making, on the bottom of page 1. It's namely the following: We urge the finance committee to pass on the following recommendation to the government:

That the Ontario government introduce the legislation and table the regulations detailing the unforeseen circumstances, the uniform conditions, and the provincial standards that all municipalities must meet in order to ensure the following: (1) that all Ontario municipalities equally qualify for equitable assistance from the province's welfare trust fund; and (2) that all Ontario municipalities provide neighbours in need with equal and fair access to equitable social assistance, public services and community programs.

In order to leave enough room for discussion, I'll skip the bulk of page 2 in the hope that you will look at it later, if you have some time, and continue on the bottom of page 2.

There's growing evidence, and we've heard it from Rick a few moments ago, that more and more people in Ontario are experiencing a serious loss of dignity and a real sense of futility when they cannot find jobs at decent wages and when they must rely on food banks and hostels in order to escape hunger and homelessness. In this context, it would be helpful — I've attached them as appendix D — if the minister were required by this committee to answer the questions we raised in our letters of January 3 and 8, 1997, very specific questions that deal with how the government is dealing with the various unemployment, welfare and poverty situations. We have yet to get answers.

I think those answers should be tabled not only with this committee but in the Legislature so that the public knows exactly what progress, if any, is being made with respect to the implementation of the promises the government made during the election campaign and which Mr Harris repeatedly stated on CBC Radio in interviews with Gzowski and others, namely that poverty would be eliminated, jobs would be created and we would live in a province where people would enjoy a genuine life of dignity and community.

The reality is otherwise. Vulnerable neighbours must daily struggle to meet basic human needs of their families, while others, like most of us in this committee room, daily benefit from the government's arbitrary reductions in Ontario's income tax rates. These cuts were imposed at the expense of the poor and the unemployed and are having a severe impact on community services and social programs that are so essential to these vulnerable Ontarians.

A year ago when I appeared before this committee, I strongly urged the government particularly to put a moratorium on income tax cuts and to use the savings to restore the social assistance cuts that had been made so arbitrarily without consulting anyone.

In preparation for this appearance, I read the Hansard containing your committee's proceedings of February 6 when Finance Minister Eves presented his analysis of how well the government is doing in terms of its financial forecasts and deficit projections. Mr Eves stressed that the deficit is being cut more quickly than he had expected and that the "the government's plan to cut taxes and create jobs is indeed working." I don't know for whom, but it's working.

Mr Eves said, "The size of the restructuring fund has been increased from $900 million to $1.8 billion and we have committed over $1.3 billion in restructuring investments to date." My question is, where does the money come from? Does it come from the hundreds of millions of dollars that have been taken away from social assistance and other social programs?

The finance minister announced that the provincial government "will be sharing the costs of social assistance with local government." That means, as I understand the record, that municipal governments' share will increase from 20% to 50%, no less than two and a half times the current load.

We're deeply concerned about this offloading of costs. Quite apart from the question of whether municipalities have sufficient resources to adequately cover these increased financial responsibilities, we strongly object to the principle of funding social assistance and services through property taxes, which are currently very regressive and not based on ability to pay, rather than through the progressive income tax system.

While Mr Eves stated, "A $700-million trust fund for welfare has been established that will provide assistance for communities in the event of unforeseen economic circumstances," the Treasurer has yet to spell out the following, which I think is crucial: (1) which unforeseen circumstances will entitle municipalities to receive assistance from this trust fund, (2) which uniform conditions the provincial government will insist on before municipalities will be provided with equitable assistance, and (3) which provincial standards all municipalities must meet in order to ensure that all Ontario communities provide neighbours in need with equal and fair access to equitable social assistance, public services and community programs.

CPJ is deeply concerned about the rapid disappearance of equitable national standards and effective enforcement mechanisms that would provide legal equality and fiscal equity for all Canadian residents in all provinces and territories.

The federal government's terrible failure to establish and enforce national social policy standards across Canada should not be repeated at the provincial level. The Ontario government must insist, in law, on uniform conditions and substantial standards for social programs that are enforceable across Ontario.

According to our Canadian Charter of Rights and Freedoms, all Canadians are "equal before and under the law" and have "the right to equal protection and equal benefit of the law." In our view, Canadian citizenship entitles all Canadians to equal treatment, without discrimination, across Canada, to legal equality, to national consistency and to economic, fiscal and social equity, no matter in which province or territory we live.

At the same time, the principle of equal citizenship rights should apply, without discrimination, across Ontario, no matter in which municipality we live.

I'll stop here in the hope that we can have some candid discussion about the absolute necessity that there be standards tabled by the minister as to how all Ontario people who are living below the poverty line are going to have equitable, adequate access to government resources, and how municipalities will be required to treat these people without discrimination.

1750

Mr Martin: Thank you for a very sobering presentation. It behooves all of us who have the responsibility of government to always try to determine the impact of the decisions we make on people, the people who live and work and enjoy, or try to enjoy the livelihood that should be available to all of us in the province.

Today you particularly bring to our attention a group of people we have special responsibility for and you make an excellent point in calling for a standard or the setting of a standard, particularly as we see this govern-

ment make decisions about who will pay for what services, and the downloading of that on to municipalities and the varying ability of municipalities to provide for a certain level of comfort, whether it's seniors or the poor or children or whatever. How do you propose we establish a standard and how do you propose we enforce that?

Mr Vandezande: I think there needs to be some consultations with the stakeholders and the people who are directly affected. When Mr Martin tabled his budget in 1995, through Bill C-76 he abolished the Canada assistance plan, which committed provincial and federal governments to do whatever they could to remove the causes of poverty.

Within CAP there were certain standards, all of which, except for the residency requirement, have been eliminated. The Canada health and social transfer has only one condition that applies to social programs and that is the residency requirement, but even that is being played with, to use the term loosely. CAP has ended, the CHST contains no real standards on programs within province, and it behooves this government and the Ontario Legislature to see that as a non-partisan issue. To prevent intermunicipal warfare as to what we do with the poor, it is essential there be conditions that are equally applicable to all across the province.

There needs to be discussion with AMO and the other stakeholders, including agencies such as the one Mr Tobias represents and other food banks, as well as municipal social service deliverers so we know from one another what is needed and what standards should be put in place, so that when the political decision-makers have to decide on decisions as to who is entitled to a share of the welfare trust fund, it is done at arm's length, in the light of conditions, criteria and standards that are equally applicable to all, so that it doesn't become a political slush fund that will go to those municipalities where the most people may be supporters of a particular ideology or program, and so that people really know in terms of the public record who is entitled to what under which conditions.

I listened to the presentation by AMO earlier today. Clearly, they ought to be at the table, as well as all the agencies that are directly involved in the delivery of services. The government cannot arbitrarily go ahead with a trust fund. Who are going to be the trustees? Will they be independent citizens who are competent to judge the applications of municipalities for assistance from this fund, and will people like Mr Tobias and others be on that panel of people who decide whether there is a real need that must be met, or are there going to be patronage appointments that will do whatever the government of the day thinks is best to do?

I apply that not only to the Conservative government that is now in power, but to whoever is going to be the next government, which is going to also have to have an arm's-length relationship to the agency that decides what assistance municipalities are entitled to.

Ms Bassett: Thank you very much, gentlemen, for your presentation. As parliamentary assistant to the Minister of Finance, I want to assure you that I will relay what you have said. I look forward to re-reading it because there's so much density in all your ideas and when it's in Hansard I will look at it very closely.

I also want to assure you, although you look at how we're going to get there, that we do share the same goals and our government does have a program that is beginning to pay off in order to raise the general economy so there will be money to pay for social programming. You might disagree, but I want to put that on the record; we're going about it maybe in a different way.

What I wanted to mention was that I was looking at some clippings for another group that was in and I see that food bank numbers were way up in 1989; some reporter wrote that they'd increased way over 100% since 1984. It just made me think, here we are in 1997 when I always, when I used to help out in food banks, thought they would be a Band-Aid.

I know that's just one aspect of all the myriad of things you do, but it brings me to the question: We are looking very carefully at how we can educate and provide job opportunities to maybe help people you are helping to stand on their own feet. Do you have suggestions on the job market? I know it's just one little bit of all the things you talked about and I don't mean to trivialize in any way by crossing off or not dealing with all the other things.

Mr Tobias: I am not, by nature, a political person. I run an agency that works with the poor. I'm not sure how policies get implemented. What I know is that I regularly meet with the senior executive people of national and international companies that are positioned in Toronto. They regularly ask what they might do to benefit the community we serve and I regularly suggest opening some businesses in our neighbourhood. The most frequent answer I receive is, "What else could we do?"

Thirty or 40 years ago our community was rich with businesses. Times have changed and most of those businesses have moved to the fringe of the city while the poor have remained in the core and the community remains a catchment area. There will likely be no significant change in our community until there are jobs in our community. Whether that's the job of government or industry or who, I don't know that that's for me to answer.

But I do know that our community is in desperate need of jobs. We are convinced that the single largest cause of poverty in our community is not the abuse of substances — alcoholism or things like that. The single largest cause of poverty or of hunger in our community is unemployment. We know that in the mission where we work, we regularly have to break up fights among people who are arguing over who gets to help out and volunteer and work, and one of the consistent issues in our community is that people are saying, "We want to work."

From street youth who want to serve behind the coffee bar at our drop-in or sweep the floor or mop up, to the single moms and others who come down to volunteer at our food bank, we find our people are desperate to say, "Just give us a job and let us do it." The reality is that nobody's providing those jobs. Until those jobs are provided by somebody, and I suspect it's not the job of an old mission, food banks are with us to stay.

1800

Ms Bassett: They should be provided in the downtown core where you are.

Mr Tobias: They should be provided in the community where we are.

Ms Bassett: That's the kind of thing that is helpful to look at, yes.

Mr Vandezande: I'd like to add to that. First of all, thank you for your commitment to review what we've said. I'll be glad to give you a submission that we made to the parliamentary standing committee with respect to the possibilities of job creation.

One of the keys, I think, is that we reduce overtime or eliminate it, look at the distribution of work, and plug the loopholes in the tax system that give unfair advantage to highly profitable corporations and wealthy individuals. I think this government, in facing the reality that the job creation is not what it thought it was going to be, should establish an independent arm's-length job creation task force that looks at the measures that ought to be taken.

However, when I look at the discussion there was between Mr Phillips and Mr Eves when Mr Eves appeared before this committee, I think it is crucial that the Ontario people get a clear presentation of what is actually happening on that front, and let's have an independent analysis of which jobs are created and where.

That's why we asked the questions we did. Maybe you can use your influence with the Minister of Community and Social Services to make sure that those figures come on the table and that we get an accurate reflection in the minister's statement whether revenue is really increasing. If it is increasing as rapidly as — let's use some of that money to get the kind of job creation possibilities in the downtown sector. If we want to prevent more health problems, more criminal problems etc, then that's one way of effectively using the money that Mr Eves on — when was it? — February 6 said the government was —

Ms Bassett: Thank you. I'll be interested in the submission you've made.

Mr Phillips: I appreciate those remarks and your suggestion is one I've suggested before, but involving some independent stakeholders — I hate the term "stakeholders" — because I think we have our head in the sand on jobs.

I put some numbers out and the government refutes them, but the numbers came out in the last couple of days and we've lost 37,000 jobs in Ontario in the last five months. That's their numbers. The rest of Canada has gained 72,000 jobs in the same period. I don't think I've ever seen our youth unemployment as high as it is, according to the government, 18.6% in January 1997.

The government, in one of our hearings, when asked, "What should we expect in terms of job creation with 3% real growth?" said, "Jobs will grow at 2% — 2% job growth — about 100,000 jobs." We have what looks like a problem that is not going to be solved on the jobs front and your point is that until we get beyond arguing about whether we've got a problem or not, we'll never solve it. I say we've a problem. It's in the government's best interest, any government frankly —

Mr Vandezande: It's clear from yesterday's federal budget presentation that we are stuck with close to 10% registered unemployment. Then the unregistered unemployed is another 5% or 7%. It's also clear that neither the provinces nor the federal government really know how to get hold of it. I want to stress it's an issue that is, first of all, non-partisan — both unemployment and poverty. Second, it involves more than government. Industry and communities need to become part of it. It's fascinating to me that certain jurisdictions in Europe are doing a phenomenal job on job creation and at the same time have a high level of social programs and social services, and we may want to look at those.

In addition to that, the figures you've cited, Mr Phillips, and were cited in the federal budget yesterday all point to one reality, that unless we work together for a better Canada, for a better Ontario, on a non-partisan basis and are prepared to face the people on that issue, including the people who are wandering the streets of Toronto, we are going to have more cynicism and more disrespect for political parties.

Last night I was in Scarborough. Thousands of people turned out and some couldn't get in. That is not only because of the megacity; that is because people are deeply frustrated that they are not getting a hearing, that they're not being told the facts, that they're not given any options, that they are not allowed to participate, that they aren't given the opportunity to really access their politicians. I'm speaking right across the board. We need a new way of dealing with these issues. If we don't, we're going to be in deeper trouble than we already are.

I think that involves participation of the trade unions, the chamber of commerce, AMO, the universities, everyone, and let the government have the vision to say, "Let's get the advice of the common people for the common good and let's not worry about whether our revolution makes it or the opposition parties can score points, but let's do something for the wellbeing of the people."

The Chair: We thank you very much for your very passionate presentation. I can assure you it's something we face every day and it's something we're very concerned about. We'll certainly take your remarks into consideration, Mr Vandezande and Mr Tobias.

Mr Vandezande: Would your committee ask the Minister of Community and Social Services to table the answers to our questions, which we've tried to put in as non-partisan a way as possible.

The Chair: We'll put forward that request.

Mr Vandezande: Thank you.

The Chair: Thank you very much. That concludes the business for the day and we stand adjourned until tomorrow at 10 o'clock.

The committee adjourned at 1806.

ERRATUM

No.	Page	Column	Line	Should read:
F-26	931	2	38	**Mr Kwinter:** My reason for asking the question is that it would

CONTENTS

Wednesday 19 February 1997

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Chair / Président: Mr Ted Chudleigh (Halton North / -Nord PC)
Vice-Chair / Vice-Président: Mr Tim Hudak (Niagara South / -Sud PC)
*Ms Isabel Bassett (St Andrew-St Patrick PC)
*Mr Jim Brown (Scarborough West / -Ouest PC)
*Mr Ted Chudleigh (Halton North / -Nord PC)
Mr Joseph Cordiano (Lawrence L)
*Mr Douglas B. Ford (Etobicoke-Humber PC)
*Mr Tim Hudak (Niagara South / -Sud PC)
*Mr Monte Kwinter (Wilson Heights L)
*Mr Tony Martin (Sault Ste Marie ND)
*Mr Gerry Martiniuk (Cambridge PC)
*Mr Gerry Phillips (Scarborough-Agincourt L)
*Mr Gilles Pouliot (Lake Nipigon / Lac-Nipigon ND)
*Mr E.J. Douglas Rollins (Quinte PC)
*Mr Joseph Spina (Brampton North / -Nord PC)
*Mr Wayne Wettlaufer (Kitchener PC)

**In attendance / présents*

Clerk / Greffier: Mr Franco Carrozza

Staff / Personnel: Ms Steve Poelking, research officer, Legislative Research Service

F-29

F-29

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Standing committee on finance and economic affairs

Comité permanent des finances et des affaires économiques

Pre-budget consultations

Consultations prébudgétaires

Chair: Ted Chudleigh
Clerk: Franco Carrozza

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 20 February 1997

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Jeudi 20 février 1997

The committee met at 1001 in committee room 1.

PRE-BUDGET CONSULTATIONS

The Chair (Mr Ted Chudleigh): Could we call the meeting to order, please.

CANADIAN BANKERS ASSOCIATION

The Chair: We have before us our first deputants, the Canadian Bankers Association. We welcome you to the standing committee on finance and economic affairs in our pre-budget consultations, gentlemen. We look forward to your presentation this morning. If, when you begin your presentation, you could identify yourself for the purpose of Hansard, we would appreciate that, and we will use up any remaining time you have with questions, commencing with the official opposition.

Mr Warren Walker: Thank you, Mr Chairman. My name is Warren Walker and I'm from the Bank of Nova Scotia. I'm joined today by Reg Kowalchuk from the Bank of Nova Scotia and Michael Green from the Canadian Bankers Association. Reg, I will turn it over to you.

Mr Reg Kowalchuk: Thank you, Warren. The Canadian Bankers Association is encouraged by the progress of the Ontario government in its attempts to bring down the deficit, and we continue to support the government's approach. However, Ontario's \$8.2-billion deficit and the accumulated \$102 billion of debt will continue to be a serious problem. We believe the deficit reduction measures, though painful, will ultimately lead to more sustainable economic growth and hopefully job creation. We encourage the government to stay the course, not only to continue in reducing the deficit but by improving the business climate for investment in the private sector.

The important areas that we believe have a significant bearing on job creation and economic growth are taxation and regulation. With respect to taxation, the capacity to raise personal and business taxes in Canada, and Ontario in particular, has been stretched, and we believe that from a long-term perspective the ultimate goal of all governments must be to reduce the overall tax burden in Canada.

On the personal taxation side, we believe that lower interest rates are the best way to increase investment and create jobs. We are very encouraged by the steps taken in Ontario to reduce the overall tax burden on consumers and we're confident that the recent declines in the domestic borrowing costs, translating to increased Ontarians' disposable income, will go a long way in the consumer spending revival we're all looking forward to.

On the corporate tax side, we feel that the overall tax burden on Canadian corporations is high, particularly in the case of the banking sector. As you know, further corporate tax increases, particularly payroll taxes and capital taxes, only serve to discourage private enterprise. They certainly impede job creation and reduce the competitiveness of Canadian businesses.

As the federal and provincial governments, including the Ontario government last year, have often used the budget process as an opportunity to single out banks for tax increases or other policy decisions, we wanted to include some information on bank taxes so that the government representatives have a more balanced perspective on this issue.

Canada's largest banks are almost certainly the most heavily taxed business in the country, and in 1995 Canada's six largest banks paid over \$4.2 billion in government taxes, of which \$883 million was paid to provincial and municipal governments in Ontario.

The introduction of the Ontario surcharge, offsettable by the small business tax credits announced in last year's budget, will cost the banks an additional \$10 million. That's without the offsets available under the small business tax credit. That's \$10 million on an annualized basis. Since 1994, the cumulative combined total of this and other federal and provincial tax increases represents \$582 million in additional taxes that have been or will be paid by Canadian banks.

Banks are subject to taxes that other businesses are not, they are taxed at higher rates and pay proportionately more due to the labour- and capital-intensive nature of the business. In fact, Canadian banks pay tax at the top corporate tax rate. That's up to 19.5 percentage points higher than that paid by manufacturing companies. We pay capital taxes which many other businesses in Canada and virtually no international companies pay, and we pay significant payroll taxes for over 206,000 employees of the banks, approximately 80,000-plus of whom reside in Ontario. Of course, there are property-related taxes on our almost 4,000 branches.

There's another form of taxation which burdens business and impedes investment and economic growth, and that's the cost of regulation. Governments must continue to eliminate duplication and unnecessary legislation and regulations where possible to reduce these costs of business, which in our mind are unnecessary costs that make Canadian companies less competitive. Legislative and regulatory overlap and duplication detract from productive economic activity and take resources away from job creation and new projects. We believe that further deregulation and reform of the legislative regulatory processes are crucial to companies' ability to lower

their operating costs, particularly in the small business sector.

We support federal and provincial government efforts to rationalize legislation and regulatory overlap and thereafter, where reasonable, encourage self-regulation and integration once governments have determined the need for the remaining provisions.

Mr Walker: Mr Chair, in order to leave time for questions, I'll keep my remarks very brief. We thank you for the opportunity to appear here today. As you know, the banking industry is a core business in Ontario and a major job creator. We currently employ some 85,000 staff in the province, of which 60,000 are located in the greater Toronto area. Our industry is also a key contributor to Ontario's economic strength and is strongly committed to job creation and sustainable economic growth among its broad customer base, and I cite in particular the small and medium-sized business sector.

The economic outlook for Ontario in 1997, from our perspective, is good. Housing starts are up, resales are surging, the auto sector is robust. However, as we know, some communities in some of the outlying regions are going to go through and will continue to go through some adjustments related to downsizing and restructuring.

1010

The unemployment rate and the ongoing restructuring of industry are also contributing to a high level — record levels — of both consumer and business bankruptcies. In this context, small business remains the key driver for our future economic prosperity. Our industry in Ontario has a strong record of lending to small and medium-sized businesses. We have about $23 billion in authorized credit available to 254,000 small and medium-sized businesses in Ontario.

The Ontario committee of the Canadian Bankers Association that I represent here today is comprised of the senior line general managers of each of the major Canadian banks in Ontario. We believe, as a group, that through education programs, seminars and other initiatives, both within our broad customer base, as well as within our own organizations, we can assist small and medium-sized businesses gain better access to capital.

Our industry recognizes that the government's objective is to increase the amount of patient capital to small businesses. We generally support the recommendations of the February 1997 report of the committee on small business access to capital, in particular its recommendations to explore in partnership with key stakeholders the concepts for creation of community small business venture capital funds that would provide equity capital to smaller firms. We support the recommendation that the government look at ways which would encourage the participation of other financial institutions in broadening the financing base for small businesses.

We welcome fair competition in the marketplace and we add our congratulations to the co-chairs, the minister, Minister Sampson and Joe Spina and the members of the committee on the report. We look forward to participating in the consultation phase to follow.

In my earlier remarks — and again I will be brief — I mentioned our support for educational initiatives and I'd just like to take a second and cite a number of them that we've undertaken in 1996.

In partnership with the Ministry of Economic Development, Trade and Tourism, we participated in running over 2,000 seminars between 1987 and 1996, Starting a Small Business seminars. We're also in the process of running seminars entitled Partners in Your Success, designed to assist entrepreneurs improve their business planning and financial management skills, as well as gain insight into federal and provincial government support programs and services and to be export-ready through the sharing of real-life entrepreneurial experiences.

These seminars have been delivered in partnership with the federal and provincial governments, the municipalities, chambers of commerce, boards of trade and other key stakeholders. In 1996, seminars were delivered in Huntsville, Ottawa, Kingston, Toronto and Brantford. More are being planned for Toronto, Hamilton, London and other centres when sponsors are available.

We would at this point welcome any questions that you may have of myself, Mr Kowalchuk or Michael Green, representing the Canadian Bankers Association.

The Chair: Thank you very much for your presentation. That leaves us with about six minutes for each caucus.

Mr Gerry Phillips (Scarborough-Agincourt): Thank you for the thoughtful presentation.

One thing that we're particularly concerned about is employment, jobs. I keep saying that Ontario has had a disaster in job creation in the last five months. We've lost 37,000 jobs. The rest of Canada has gained 72,000 jobs. I see by your forecasts that you're predicting job growth in 1997 at 2.2% and in 1998, albeit on a small sample, something just slightly less than that, about 2%. That translates, I think, to about 110,000 to 115,000 jobs a year, which is way short of what the government had been predicting, but I must say it's the same as the Ministry of Finance people say. They say with 3% real growth, you get 2% real job growth.

Is that what we should be expecting, in the bank's collective judgement, employment growth around 2% to 2.2% or 2.3%, and if so, doesn't that leave us with almost a permanent 500,000 people unemployed, by these numbers, at least to the end of 1998?

Mr Walker: I'll add a couple of introductory remarks and then turn it over to my colleague.

The economic forecasts, as you know, get revised on about a quarterly basis. The latest forecast I saw, in particular out of my own institution, was calling for somewhat stronger growth in the current year, 1997, than we'd been looking at some time ago. Our forecast for growth is in excess of 3% for the current fiscal year. Michael, perhaps you can opine on the statistical appendix.

Mr Michael Green: We said in our presentation that the forecasts vary among the institutions and from year to year. On average, banks believe that the real GDP growth in employment will increase by between 1% and 3% annually over the next two years. That's the general sort of opinion among the industry at the moment.

Mr Phillips: I was just going by your chart here, which shows employment growth at 2.28%, and then on a small sample, 2.1%. That's I guess what you believe, about 115,000 jobs.

Mr Green: We're optimistic that the way the economy is moving right now we may even exceed that.

Mr Phillips: Exceed the real GDP of 3.3%?

Mr Green: Achieve a GDP of 3.3%.

Mr Phillips: That creates jobs at 2%, I gather.

Mr Green: That creates jobs at between 2% and 3%.

Mr Monte Kwinter (Wilson Heights): If I could just follow up on something you have in your written presentation about jobs, you say that, "Monetary easing has the potential to create hundreds of thousands of permanent jobs, while feasible fiscal stimulus has the potential to create only tens of thousands of temporary jobs." Could you just expand on the rationale behind that?

Mr Green: Our view is that lower interest rates are the better stimulant to job creation, and provided we continue to see downward pressure on the rates, the Canadian dollar sort of moving in its present range, opportunities are certainly going to increase for job creation. As you know, a large portion of our GDP in Ontario is export-related, and with the value of the dollar as it is, it's going to create excellent opportunities for exports to the USA, and by that we see excellent opportunities for job creation to continue.

Mr Phillips: Just to follow up on the jobs, one of the comments we've heard is that the financial community obviously has been investing heavily in technology and that just as the manufacturing sector eventually translated that into a much more productive workforce, if you will, I see by the job numbers that the finance, insurance and real estate sector is down about 16,000 jobs in 1996 from 1995. Do you have any feeling of your own industry, of what's going to happen to employment in the financial sector over the next two to three years?

Mr Walker: The business is changing, Mr Phillips, as you well know. This industry, through technological innovation, through external competition, is being forced to become more efficient at a transaction-processing level. It's difficult to pick up a financial publication today without some discussion of automation and technology, co-venturing, joint-venturing etc. But what we are seeing is a migration of those jobs from low-value, low-paid positions, in most cases, to higher-value-added, higher-paid financial counselling, personal banking officers replacing tellers in this industry. Across my institution we've actually added staff in the course of the past year. While we've eliminated a number of jobs at lower clerical levels, we've created more, and in almost all cases it's been through retraining that those people have kept their employment with our bank. I think that would be the case with many of the other financial institutions as well. It's our intent to preserve employment for our staff to the greatest extent possible.

Having said that, as you know, we're going through a re-regulation review in the coming months and in the coming years, looking at issues of competition and Bank Act revision that will have a big impact on that potentially.

The Chair: Mr Cordiano, do you have a brief one?

Mr Joseph Cordiano (Lawrence): Very briefly, I just wanted to address the section dealing with lending targets to small business. You state here that the setting of lending targets and mandating that may not be a good idea. You also go on to talk about the percentage of credit outstanding to small firms as a percentage of the total portfolio being 5% — that's what your document says here — and you talk about job creation.

I think we have a serious problem with access to capital, because small businesses are not getting access to that capital, and you even admit this in your lending target section here. It's a question of how you get to where we want to go in order to create jobs. Since most jobs are created by small business today, what are your plans to increase your portfolio lending to small businesses?

1020

Mr Green: That's a very good question. One thing I want to point out is that there are so many different definitions of small business. I think in the Sampson-Spina report we look at the definition being $1 million and under, but small businesses could also be defined as those with an authorized credit limit of $500,000 or more.

Let me just put into perspective what the actual lending figures to small businesses are for the Canadian banking industry across the country. Warren mentioned that in Ontario we have $23 billion in authorizations available to small business. As a whole, small business credits total some $62 billion across the country. There is no shortage of lending moneys for small business.

We also recognize that the banks are major job creators, as being the major source for small business lending. I think 80% of all small businesses obtain their financing from the banks, so we're very cognizant of the need to keep supporting that, and as the chairman of the Ontario committee said, we're going to review and go forward with the Sampson-Spina report to look at alternative ways to provide that sort of equity side of the balance sheet to small business.

Mr Gilles Pouliot (Lake Nipigon): Good morning, Chair and distinguished members of the panel. I must confess at the beginning that I court and attract a different manner of humanity, so I'm duly honoured this morning for the first time to meet with distinguished representatives of the banking association. I'm here to learn, so you will bear with me in the brief allocation that I have.

You focus on the disproportionate tax burden that the banking industry has had to endure, and your focus, reading between the lines, says that it's been compounding. You feel, if not maligned, to a certain extent in this context victimized, that you've been an easy target, that people see politicians — and I know what happened at the federal level. That is the manner of humanity that we court indeed, but I wish you better success with this manner of humanity, but sometimes it's a nuance. You have to really look for the difference.

You feel that you're really overtaxed vis-à-vis other sectors, you're overtaxed in your sector vis-à-vis other jurisdictions. In the same breath, you bring this matter to deregulation and you speak of competition at the marketplace being the essence of the system in which we live. When you speak of deregulation, of course you will understand that there are degrees and decrees and thresholds; that on the one hand some of your critics see your situation as one, if I may be so bold, of cartel, monopol-

istic, that you don't have deregulation at the marketplace when it comes to the banking industry. In fact, there is a fear that this will be winner-take-all; that if given your recommendation, we will lose the equilibrium, the balance. It doesn't mean I'm right. I'm so often wrong.

I want to focus briefly on what I too believe to be — hopefully you're right — an optimistic forecast. The way some of us see things, all stars are aligned in a perfect fashion. You have a low interest rate, you have an export-driven market, you have contained inflation.

I will not bore you when I look at your forecast with some of the fear, some of the anxiety. As Canadians, we feel guilty. We don't enjoy good times because, oh, we're going to pay for this. But I wish to ask you, when you looked at that crystal ball — I hear of a little pressure on wages, which will be inflationary. I hear of the perception that soon the debt will be attacked after the deficit has been addressed. I don't hear about a stronger Canadian dollar when all is well. There's always a balance here. There's always a price to pay. I don't hear about money supply vis-à-vis the money on account. Simply put, if you don't see a rise in interest rates now, this might be compounded in a larger way. I don't see any political analysis — I know time is limited — regarding the first and second year of the presidential tenure, a repeat, where people tend to become lame ducks and the system loses its energy rather early in the term.

I don't see the seven years of what is a bull market. I don't see the inflationary pressure on the NASDAQ sector of the New York exchange. I don't see the pressures being put on the futures on the price of crude. Will you tell me your figures? What changes do you have? I know of your track record. It's not immaculate, but by the same token, it's as good as any. What can go wrong? What would dislocate the recovery? What would jeopardize the recovery that we have now?

Mr Kowalchuk: I think that increase in the interest rates would certainly be the first item that could attack, as you put it, the recovery, and secondly in my mind, a much stronger Canadian dollar affecting the export prices of Ontario's export markets.

Mr Walker: Just to echo what Mr Kowalchuk said, I think the circumstances in the interest rate environment are critical to us, ergo political stability in the country is very important if you're looking to maintain stability from an interest rate environment. Something like $144 billion in residential mortgages will come up for renewal in this country in the next 12 to 18 months. The reduction in interest rates in Canada over the course of the last couple of years has provided $5 billion in incremental disposable income to Canadians.

You're right, Mr Pouliot, when you suggest that our recovery largely has been interest-rate driven and it's largely been export-driven. Improvements in personal disposable income will improve the domestic economy. It will improve consumer demand if we can sustain a low interest rate environment. We're in an environment today where Canadian short-term interest rates are several per cent below US rates, a historical anomaly. Longer-term rates are about at par or about half a point on the long bond market. These are very favourable circumstances in Canada. With rates coming down that rapidly, we've still retained some stability in the dollar. Very important issues.

Hon Rob Sampson (Minister without Portfolio [Privatization]): Thank you very much for your presentation. I have one question, but I'll lead off with an observation. When I take a look at the stats you've shown us here on real GDP growth and employment growth, you've got two pages here, one reflecting your estimate on what's going to happen in Ontario and the other Canada-wide, and my observation is that Ontario exceeds the Canada-wide one in every category and every financial institution. I guess I'm encouraged by your observation or your expectation that Ontario will exceed the Canada average by far in GDP and job growth.

An interesting point we just talked about here was the incremental spending capacity of consumers as a result of renegotiation of existing debt, primarily in mortgages. The number you mentioned was Canada-wide. What's the dollar amount that's going to be renewed in Ontario over the next year or so, do you know?

1030

Mr Walker: Somewhere in the vicinity of 30% to 40% of that, Minister. I don't have the Ontario number at the ready.

Mr Green: We can get you those actual numbers.

Hon Mr Sampson: Has that been translated into your job growth and your spending calculations as well? I know that in the majority of economic models people use to forecast, they don't take into account such things as additional disposable income as a result of renewing a mortgage where your rate has gone from 9% to 6%. I'm wondering whether in your economic models you've included that calculation.

Mr Green: We'll have to provide you with those numbers.

Hon Mr Sampson: That would be very helpful, because that's a sizeable amount of money. You're talking billions and billions that will be released as disposable income in the economy of Ontario, yet all these statistics we have here haven't taken that into account.

I want to now focus on your comments on small business financing. Time is short today; the key question I'd like to drive at is the definition, and maybe you can help us out, of small business. As we looked at the number of reports on small business access to capital over the last number of years, the definition was quite varied. Could it be that the real small business we need to focus on — I'll put this to you and you can maybe answer me with what your definition is — is the entity that's really looking for $10,000, $15,000, $20,000, $50,000, as opposed to the $500,000 and $1-million types of transactions? Is it possible that that's what we should be looking at?

Mr Walker: I think there are two areas: First, while it's true that small business creates the lion's share of the jobs, it's equally true that very few small businesses create the vast number of new jobs. I think it's critical, therefore, that we identify those innovative, fast-growing firms, those businesses that are able to create most of the jobs, and that we work very closely with those to make sure they have every chance of succeeding. Those are the businesses, for example, whether they be in knowledge-

based industries or in export industries, that today might employ 10 people but five years from now might employ 100 people. That's one group that's very important; patient capital for those businesses, because they are growing so quickly, is extremely important.

The other group is the other and far larger portion, the in excess of 90% of our business customers that borrow less than $25,000. That's the reality in terms of the size of that market.

It's critical that they both have access to capital and also some assurance that the rules won't change on them, that they do get fair access to that capital.

I think over the course of the past several years you've seen a number of initiatives taken in this industry: the appointment of ombudspeople, both externally and internally in the financial institutions, to deal with small business complaints; the development of alternative dispute resolution processes where customers dissatisfied with the answers they've received from their financial institution in terms of any change in the terms and the conditions of their credit or calling of their loans can seek access to a third party to evaluate the circumstances; formalized codes of conduct that our staff are governed by and a review process that we go through internally in that regard. I think there has been significant development in both of those areas.

Mr Green: Can I add one thing to that? One of the other criticisms that has been levelled against the industry in the past is the credit approval process. I think my colleagues here would reaffirm that much of the decision-making is now being moved back into the communities, into the main branches, so those loans and those levels are getting approved. In fact, we commissioned a study by Thompson Lightstone last year, and that has shown that 84% of loans to small businesses are now getting approved; it may not be the first time, but as they go forward with the process.

Mr Jim Brown (Scarborough West): Thanks for coming, gentlemen. First, I'd like to correct a previous figure of cited by I think Mr Kwinter in terms of job gain. I think it was Mr Kwinter.

Mr Phillips: Probably me.

Mr Jim Brown: Mr Phillips. I have a labour force survey from Statistics Canada that shows that jobs on an unadjusted basis rose 56,000 for Ontario, which is two thirds of the Canadian total. I can give you a copy of that, Gerry, if —

Mr Phillips: I don't need you to correct the record, because my record is correct.

The Chair: He can't correct the record.

Mr Phillips: No. I want to be sure, for those listening, that I take the government's figures of 37,000 new jobs —

The Chair: Thank you, Mr Phillips. That's already in the record and it will appear in the report.

Mr Phillips: Just as long as it doesn't appear that he's correcting my record.

Mr Jim Brown: Thank you very much for coming, gentlemen. I had a small manufacturing company. I have lots of friends who had small businesses and now, thanks to the banks, they don't. They've had extra security requirements that have been put on increasing the coverage of their lines of credit; up to five times security from maybe two. I've got friends who want to sell into the States and you will not accept foreign receivables as security for increased lines of credit, which of course restricts employment opportunities here because small Canadian companies can't expand.

I've talked to my many small business friends who say that in spite of your massive profits, you continue to nickel-and-dime them on bank charges and that your level of service is abominable. I can't understand where you get these numbers, 84% and stuff. An interesting question would be — you say you put out $23 billion to small business. I wonder what your coverage is of that money you put out? Is it over $200 billion? When I look at some of the statistics for small and medium-sized enterprises over the past five years, when the going got tough, you got out and they were left adrift.

I have a real problem accepting you as born-again small business lenders. I really have a credibility problem. I'd like to be reassured that you don't use your competitive monopolistic position to take advantage of small and medium-sized entrepreneurs in Ontario, because that's where the jobs come from. You know it and we know it, and those are the guys who have to be nurtured and encouraged. What are you going to do about it?

Mr Walker: There are a number of statements and I think several questions buried in your comments. I'll try to respond, Mr Brown, and if I miss anything please let me know.

The Chair: His time's expired.

Mr Walker: Mr Green indicated the Thompson Lightstone study which surveyed several thousand small business owners on bank lending practices. That's a matter of fact. If you don't have the study, we'll certainly share it with you.

Second, the last credible piece of third-party research that I'm familiar with was a study done by two university of Western Ontario professors, Larry Wynant and Jim Hatch, who took a look at back lending practices several years ago. That study determined that the bank coverage ratios, assets to loans, were about three to one on average. Yet somehow, with three-to-one coverage, we still managed to lose money virtually every time a business went out of business, because of course those coverages dissipate. Assets aren't worth in reality sometimes what we carry them, from an accounting standpoint on paper. It's hard to, without looking at a specific case, get into what's appropriate coverage and what's not appropriate coverage.

I will take umbrage with the comment, though, that we're not interested in small business. I don't think that's a fair statement at all. I've indicated here that over 90% of our business customers are small business customers. It's a business we're in because we want to be in it. It's a business we make money at, and that's the best reason for being in it, of course, as a publicly owned stock company; you have to make money or you don't stay in the business.

If there are any specific cases, acquaintances or whatever, that you'd like us to look at, I encourage you to contact either the Canadian Bankers Association, the

ombuds offices, or I'd be delighted to look at them. If people are having trouble accessing export credit, send them to me. I'd be delighted to see what we can do.

Mr Green: Can I just add one comment to what Warren had said? We have an educational arm called the Institute of Canadian Bankers; that is perhaps the largest open university in the country.

We have also recognized that lending to small business is a two-way street. We say that the entrepreneur should be educated in business and financial planning skills, and that's a real fact so they can prepare proper and viable business plans.

The second thing, of course, is that we recognize that our own staff have to be well educated to be able to deal with the complexities of lending to small businesses. Last year, we launched a program across the country for seminars to educate account managers and bankers with small business. Mr Brown, we're really committed to that segment of the marketplace.

The Chair: Thank you very much, and I appreciate the Canadian Bankers Association appearing before us today.

Mr Phillips: Mr Chair, I found it useful to have the minister here. It's the first time I can recall a cabinet minister — is it the intention of the government that the Minister of Education will be here now for education presentations, and the Minister of Health here?

The Chair: That is not government policy, nor is it my position to indicate that.

1040

ONTARIO PUBLIC SCHOOL TEACHERS' FEDERATION

The Chair: We next have the Ontario Public School Teachers' Federation.

Interjections.

The Chair: Can we have a little order here, please? I feel it incumbent on me to point out that the NDP is the best-behaved party in the room right now. I find that encouraging.

If we can come back to order, we have our next deputant here. These hearings, of course, are long and intensive, and to keep us all in a small room together is a challenge.

Welcome to the standing committee on finance and economic affairs. We appreciate the Ontario Public School Teachers' Federation attending.

Mr Jeff Holmes: Thank you, Chair. My colleague David Lennox is secretary of the Ontario Public School Teachers' Federation. My name is Jeff Holmes. I am president of the Ontario Public School Teachers' Federation. Perhaps as an aside, Chair, I think you have some recognition at this point of the difficulties classroom management can provide to educators in the province.

The Ontario Public School Teachers' Federation represents teachers, occasional teachers and education support personnel who work in the public elementary schools of Ontario. We have a membership of approximately 30,000 members.

The federation regards these pre-budget consultation hearings as an opportunity to provide an update on issues of concern to our membership and to respond to the government's agenda.

I would like to dwell for a moment on the economic context of taxation policy. At the commencement of these hearings, Finance Minister Eves painted a rather rosy picture of Ontario and the economy. OPSTF is concerned about the level of unemployment and the below-target private sector job creation figures. A key plank of the Common Sense Revolution was the promise of the creation of 750,000 jobs over the period of five years. To meet this target, about 150,000 jobs per year must be created. The most recent figures suggest that during 1996, the job creation numbers dropped to approximately 90,000, and that was in the private sector.

Not only is the private sector job creation falling below target, but the finance minister acknowledges a 10,000-person reduction in private sector jobs, for a net increase of only 80,000 new jobs in 1996 and an overall provincial unemployment rate of 9.1%.

OPSTF continues to be concerned that government policies will lead to a greater gap between the well-off and the poor and will foster a less caring Ontario. The federation believes that slashing government expenditure, especially the 21.6% reduction in welfare rates, will lead to more children coming to school hungry, ill-clothed and emotionally strained or worse, as their families struggle to cope with societal service costs and unemployment rates that are unacceptably high.

Child Poverty in Canada: Report Card 1996, a report by Campaign 2000, provides extremely unsettling data regarding the level of child poverty in this country. According to the report, except for the rate of low-birth-weight babies and infant mortality, all other indicators of child poverty increased between 1989 and 1994. Key to this increase was an increase in unemployment rates during the same period.

I'll turn for a moment to disentanglement. OPSTF does not support the plan to further download soft services to the municipal governments, especially welfare, child care and long-term health care. These services are vital social services which determine the general wellbeing of Ontario citizens and they should not become dependent upon the ability or the willingness of property taxpayers to support them.

I find it quite interesting that over the last period of time the government has stopped talking about people and started talking about taxpayers, and there is a considerable difference. People require services and people require support. Taxpayers require only extra dollars in their pockets.

Child care: The new framework for child care means that municipalities will have to assume 50% of the costs instead of the current 20% share. The federation's concern is that this will mean that municipalities, faced with increasing financial burdens, will look to less costly, unregulated, informal child care as an alternative to the current licensed, regulated home- and centre-based child care programs.

Now to turn to education, which of course is our primary focus: OPSTF has long advocated for a greater provincial responsibility in the funding of public elementary and secondary education. For a number of years we have watched as the government share of education has dwindled from one-time 60% rates, further and further

downloading to municipalities and to the ratepayers the cost of education.

The federation does not support the plan of this government to assume virtual, total control over the funding of schools by eliminating the role of residential property taxes in paying for public education. A historical strength of school boards in this province has been their ability to respond to local needs. School boards must continue to share governance responsibility for public education in Ontario. They will not remain viable entities without taxing authority and the ability to have some flexibility in the provision of educational services.

A good case in point is that of junior kindergarten. The government has made junior kindergarten a local option. At the same time, it has cut financial support by about 50% and it has eliminated all capital funding for the program. Without the ability to raise funds locally, school boards will be unable to offer the program outside of those mandated and funded by the province itself. Without some taxing authority, school boards will become ineffective local representatives at best.

OPSTF is leery of the province's intent to assume control over education finance for a number of reasons. The federation is particularly concerned that increased provincial control is being pursued primarily to facilitate the removal of an additional $1 billion from education. The government has acknowledged that the proposed reduction in the number of school boards, for instance, will result in about $150 million in savings which, compared with the size of the education budget, is relatively scant. If this government is bent on extracting up to another $1 billion from education, then school board employees and programs become the only and obvious targets.

1050

Our concern about the government plans for education is fuelled by recent reports commissioned by the Ministry of Education and Training which narrowly define the classroom as consisting of the classroom teacher, occasional teacher support, educational assistants and educational supplies. Outside of this definition are the following key classroom supports: library, guidance, teacher preparation time, principals, vice-principals, consultants and custodial and maintenance services. It's our belief that the explanation for this is that the government can then target education cutbacks and still claim not to be violating its tarnished Common Sense Revolution promise not to cut classroom spending. If this is the case, parents will not be fooled, for they will witness first hand the impact of cuts to so-called outside-the-classroom spending.

OPSTF's concern about the ultimate design of the future funding model for education is also fuelled by the Minister of Education and Training's incessant manipulation of data and his misinformation to the public about education spending in Ontario. The minister repeatedly tells the public that school boards have had to absorb only a 1.8% cut in funding, when in fact in 1996 the $400-million cut to education represented 9% of the total provincial grants from the 1995 level, and a 5.3% reduction in school board 1995 operating budgets. The 1.8% figure is misleading and is used by the minister to unfairly point the finger at school boards and trustees for cutting programs and raising mill rates.

The minister also continues to misinform the public about per pupil spending in Ontario and claims that Ontario spends $600 per pupil more than the average of all the other provinces. I would draw your attention to the charts on page 6, which tells the true story.

The above data demonstrate that the amount that Ontario spends above the Canadian average is $165 per pupil, or 2.4%. Ontario's consumer prices are considerably above many of the provinces quoted that expend less. A higher cost of living results in higher salaries. Previous governments have recognized the importance of reducing class size, of providing additional funding for special education and support to pay equity.

Ontario is also the destination province for more than half of all immigrants to Canada, and the resulting costs of English-as-a-second-language programs are very high. The minister's misrepresentation of the facts about educational spending is a disservice to the public and contributes to declining morale among board employees.

I would also draw your attention to the date on pages 8 and 9 that clearly demonstrate the impact the cuts to education have had and will have over the coming months.

About a year ago we were hearing rumours of the toolkit that was going to revise education and get into collective agreements and do a number of quite mischievous things. A year ago we appeared before this committee and responded to a number of those issues in the toolkit. Most of them involved targeting teacher collective agreements for contract strips, including preparation time, differentiated staffing, administrative time for principals and retirement gratuities.

We are now facing a second round of speculation that the government continues to eye teachers' compensation and the working conditions as the source for education's "share" of the next round of expenditure cuts. Any attempt to override collective agreements would be a complete abrogation of teachers' rights to full, free and fair collective bargaining. Attacks on these aspects of teachers' working conditions would not only severely affect the morale of an already demoralized teaching force but would also seriously affect the quality of classroom education.

The section of our brief on page 11 and following should provide you with some detail on how we feel about several of the targets of preparation time, administration time and so on.

We find that the situation for teachers at the hands of the Minister of Education at the moment is both demeaning and demoralizing and that the myths he perpetrates by the things he says about education are neither helpful nor productive.

In conclusion, the Ontario Public School Teachers' Federation is concerned that the government is proceeding too far and too fast with its deficit-cutting agenda and its plans to restructure provincial and municipal responsibilities. The federation does not believe that the Ontario public wants to sacrifice the level and quality of public services to a reduction in income tax which will disproportionately benefit the most advantaged. The Minister of

Finance has reported a higher-than-average forecast of revenue for this year. This organization recommends using additional revenue to address the deficit and not to attempt to fast-track the income tax reduction or if it entails proceeding with further government expenditure cuts to public services.

OPSTF believes that the restructuring and the tax reforms being pursued by this government will lead to a socially divided Ontario. It is no surprise that recent opinion polls demonstrate that Ontarians are roughly evenly divided on such key issues as the question of further income tax cuts and the appropriateness of government cutbacks.

We are moving towards becoming a society of haves and have-nots. Canadians pride themselves in their sense of social responsibility and their civility. This national characteristic is being placed at risk by the pace and extent of the Common Sense Revolution agenda.

Mr Pouliot: Gentlemen, what a refreshing presentation, in my opinion, that focuses on the human dimension by way of education. You've made some pretty serious observations in your presentation — "mislead, misinform" — but you have immunity at this committee, I trust. If only those observations, those charges, were a departure from the truth I would be the first one to say, and I'm sure there would be others who would interrupt, with respect, "No, no, you've gone too far," but I think you're right on.

They talk of anywhere between $700 million and $1 billion. They know there will be insufficient dollars by way of administration, and they float and they massage and they lure and they seduce the general public. They say, "It won't affect Jane or Harry in the classroom, those front liners, they'll be protected," and yet $150 million doesn't suffice to meet their target.

Do you know how they're going to do it? I hope I'm wrong. They'll do it by going after the pension plan, the contribution of the employer, if you wish, because they know there are $43 billion or $44 billion in the pension plan, and actuarial figures will attest that it will suffice to meet their responsibilities in the future. They also know that now you don't negotiate with the school boards, that you have a new relationship, a one-on-one relationship. The boss is the province. They call the shots. In French we say "action directe" and direct it will be indeed.

The right to withdraw your labour will be taken away — gone out the door. Then they will go after the compensation and the wages. Forget about the accumulated sick leave, because they'll tell you: "You weren't sick. Why should we pay you for having been well?" They'll disregard that; in some collective agreements they will disregard that. They will go to the very heart because they're on the hook for a 30% tax break for those who need it the least. I'm sorry, but that's the way I feel.

The rest of us, the service providers, will become part of the people who have less, and those who have more will run the field and they'll rule: survival of the fittest, little human dimension, class warfare looming, not with bricks and mortar but with people getting out of the system. You are the victim of it that's coming by the hundreds of thousands.

What is your opinion? Where do you see the government going in terms of compensation for the service, the front line that you provide on a daily basis? Your membership does that. How do you see the future in the next month, in the next year?

Mr Holmes: I wish I had a crystal ball so that I could see the future. We have repeatedly asked the Minister of Education for direction on where this government, and he as minister, may be taking education and we are repeatedly told that the answer will come in full measure of time.

1100

If I were to speculate, and I suppose I'm as entitled to do that as any other, I would speculate that perhaps the direction this is going is towards voucher education, towards charter schools, towards site-based management, towards a whole host of issues that arise from the kind of advice that has been given by Dan Gardner and others suggesting that what education truly needs to make it viable and wonderful is a healthy dose of good old-fashioned competition so that schools go head to head with one another in an effort to improve them directly rather than through the offices of the Minister of Education.

Mr Tim Hudak (Niagara South): Am I the one and only on this side or is there anybody else who wants to —

The Chair: Mr Spina had his hand up. Time is short.

Mr Hudak: Then I'll try to be quick. I appreciate your presentation. One thing I wanted to bring up which I thought was passing strange is this sudden latent concern for the property taxpayer when you talk about the Who Does What. You know that property taxes had gone up some 120%, the education share of the property tax, and a lot of seniors had to pay increased property taxes on fixed incomes to finance increases in spending in education, I think in my area, Niagara, with a zero increase in payroll.

I think what the government is doing by taking education to the provincial level, off the property tax and off the backs of seniors and low-income people, is a very good thing to do and actually a very popular thing to do. I would think that a lot of teachers would support that too, tired of paying higher and higher property taxes, that they'd believe in this exchange.

Mr Cordiano: What about welfare?

Mr Hudak: The member opposite brings up welfare, as you did, and brings up the informal child care sector, as you did, and the exchange of services, which I found interesting. Obviously experts in education are spending a lot of time in that field, but it's curious to see the comments on the reduction in welfare rates and the informal child care market and on the Who Does What. Talking to a lot of teachers, and having two parents as teachers and a sister as teacher, I know these programs are very popular with the average teacher.

My question is, what mandate did you get from your teachers to comment on the reduction in welfare rates or in informal child care? Is this from a survey of your members or is it just an example of the people who are running the union that you represent?

Mr Holmes: Mr Hudak, I know a teacher or two myself and I spend a good deal of my time on the road talking to thousands of colleagues across this province. I want to go back for a moment to your comment about the

increase to the ratepayer, and let's talk for a moment about the source of the increase to the ratepayer. How did the ratepayer come to be paying more? The answer is quite simple: The province paid less.

Mr Hudak: We know there was an increase in grants for most of those years. As a matter of fact, it's just that the property tax assessment that boards passed on was greater than the increase in grants. At least in Niagara for the vast majority of the years, to make sure the record is straight, the grants were increasing. It's just that the tax assessment increased even more. Mr Chair, I don't want to take up too much from Mr Spina.

The Chair: I believe his time is already past. Did you have a closing comment?

Mr Holmes: I would turn to my colleague.

Mr David Lennox: The only thing I can say, with due respect to the Niagara region, is that we'll send Reg Ferland around to start an education process for any of the Hudak family who need it and we'd appreciate your joining Reg for a day.

Mr Phillips: First a comment. I'm very pleased that you led with the poverty issue, because I think you're in a unique position to see it. If people don't know it exists, we're in bigger trouble than I think, because there is zero doubt that for an awful lot of young people that is an overwhelming issue for them in terms of their future.

The challenge that I think you're going to face and we're going to face is that if this just becomes a debate around numbers, the public's eyes will glaze over, and it has to be put in human terms. There is zero doubt of what the government is all about. They want to get their hands completely on education. They probably don't even mind a good fight with you. They think that may be politically popular; I suspect they think that.

I predict that there is going to be a fight. The thing has been set up for it. They are going to be in control of it. They are going to cut dramatically. They have to hit their financial targets. They'll be the first to tell you that, so you don't need a crystal ball to see that coming. I think the challenge, I would say to you — even in your brief, with all due respect, and it's a good brief and it attempts to get at the human side — is going to have to be, how does this impact on students, learning, the environment they're in?

I guess it's more a question to you of, has your organization or OTF contemplated perhaps a more comprehensive view of what this is going to mean? Look down the road. There is going to be province-wide bargaining; there is going to be a billion dollars taken out; there are going to be dramatically fewer services available to young people. There's no question of that.

Mr Joseph Spina (Brampton North): That's your opinion.

Mr Phillips: I am telling you what I believe. You can use your own time to make your own points. I will make my points without interruption.

I wonder if the federation is contemplating that so that the public will have a view of where all this is leading in terms of the impact on young people in this province.

Mr Holmes: There is an immediacy to teaching that you spoke about and an immediacy to the human response that teachers face every day. We have found over the last period of time that there is a growing body of evidence of the disastrous effect the continued cuts are having in the classrooms of the province. We are in the process, at this moment, of gathering as much anecdotal data as we possibly can to paint that human face for those who sit around this and other tables, to demonstrate to them that it goes far beyond numbers on a balance sheet.

The Chair: Thank you very much, Mr Phillips. I'm afraid our time is past and we appreciate the Ontario Public School Teachers' Federation for making a presentation here today.

1110

CANTAQLEIGH INVESTMENTS

The Chair: Our next deputant is Cantaqleigh Investments: Mr Lee, Mr Westfall, Mr Wolz and Your Worship Mr Kirkland, I believe. Mayor of Point Edward, welcome to the committee with your associates. Could you identify yourself, as you begin to speak, for the purposes of Hansard, please.

Mr Peter Westfall: Thank you for your time to hear us. I'm Peter Westfall and I represent one of the investors in this development, Cantaqleigh, who is Mr Garvin Lee, who is here. We have distributed to you a summary of a casino entertainment development proposal. As well what you have in the front is a précis of the summary that is there. That will be the subject matter of the presentation.

With us is Mr Dick Kirkland, who is the mayor of Point Edward, Mr Garvin Lee, and Mr Erie Wolz, who is an assistant of ours as well. I think Mr Kirkland is going to start today.

Mr Dick Kirkland: Mr Chairman, we're here in a little different light probably than the last people. We're here to try and generate some money for the government — not only for the government but for the county of Lambton.

Just to give you a little background on what has taken place over the years, we had CN along the waterfront for many years, and back in about 1985 they decided to pull out of the sheds as package freighters and it seemed to dwindle. The passenger ships had both burnt that used to dock there at this facility and the land has just sat, 55 acres of it, right on the water, right at the mouth of the river, just off the Blue Water Bridge. Now we have two bridges. The second one is complete. It will be open on July 12 of this year.

We have land that we have been trying to develop. We worked with CN for many years and finally got them to the point where they decided to sell this land. We've had a developer come along with a great project for the area. It's an entertainment project that we hope will attract many tourists and also the American market, which is right across the Blue Water Bridge from us. We keep trying to get them to stop in the village but it's awfully hard. When they come over the bridge, they're right on the 402 on their way out on the highway.

This project we feel will serve the needs, but we need a casino to be the engine to drive this project. As a municipality we have tried for years, as I have said, to get something to get the people off the bridge and get tourists in the area.

I just got a letter the other day from a cruise ship out of Cleveland, I believe it was. It's got two cruises up through the Great Lakes this year and both of them are booked solid, and we haven't got a spot, really, in Sarnia-Lambton area for them to dock at. We've got the facility there, but if any of you have been up there, and I know some of you have, because I think I took a few of you on a tour when you were up in the area before, we've got a building there that's been run down over the years that could end up being a beautiful building and house the casino.

Over the last while the government has passed all kinds of things back down on to the municipalities. We feel that now it's time that we, as a municipality, can look after ourselves if we have this kind of development. We had our referendum back in June of last year. In fact, we had 85% of the people in Point Edward turn out to vote at that referendum; 73% were in favour of the casino.

The only problem with this is that I feel a little bad because when I ran for mayor the last time we only had a 73% turnout, and I did get elected, but it's a little hard to take when you have a referendum and people turn out for it more than they do for the election of the municipal people.

The big thing that has happened in the Lambton area over the years is that we've lost 6,000 jobs in the Chemical Valley, and it's really hurting the whole area. We've got no new construction in homes. We've got the young people leaving the area, going west to get jobs. We've got very high unemployment, which is 15% right now in the area, or even greater.

You might read in the paper too where we've got some growth in the Chemical Valley. I think they're working on projects right now that will total about $120 million, but those two projects are not going to create one permanent job. All they're going to do is protect 70 jobs that would have been lost on top of the 6,000 we've already lost.

We know very well that this project will generate jobs. If you look at the stats we've got here, it will create about 1,500 jobs, a total of about 3,000 with the spinoff. It'll generate about $120 million, and I won't get into all these figures because that's what the developer will talk more about. When the project is all done, it will probably mean about a million dollars in taxes to the municipality, the county and the school boards. So I feel that this is very important, not only to the village of Point Edward, the city of Sarnia and Lambton county, but it's good for the whole province.

We need the jobs, we need the young people to stay at home. I always hear about families, with casinos. I've got one councillor who has a family of four, and three of them are out west right now. So really, we haven't got the family ties when we've got this kind of unemployment in the area. That's one of the big problems that we have. I know everybody thinks that over on the west side of the province where we've got the Chemical Valley, it's still booming. Well, the Chemical Valley is rolling along but it's not creating the jobs that we really need again.

In closing, as I said at the start, we're here to create jobs, increase the revenue for the government and also increase the revenue for the municipalities, which are in dire need of it.

I'm not opposed to what the government is doing in the way of cutbacks, turning things back over to us. We've got a water plant that we're hopefully going to take over very shortly. We're looking at hydro in the area as a joint venture with three or four of the municipalities. These things are going on and I feel quite confident in what we're doing, and I also feel that this project will be a very big asset to the whole province.

I turn it over to my developer, who has been very kind to the village, I must say. He's had a business in the village for 10 years. It's the first time in my 40 years of being in and out of politics that we've had a developer who comes in and he brings the whole family with him. He's not a man who is going to come in and leave us in a couple of years. He's got the whole family that he is looking out for, so that makes it that much easier when we deal with these people. Thank you, once again.

Mr Garvin Lee: Mr Chair, members of Parliament, thank you for giving me the opportunity to speak to you. My name is Garvin Lee, from Cantaqleigh. I'm slightly hard of hearing. As you probably notice, I've got two hearing aids. There's no recording device in here.

What we're proposing to do is to be able to give an opportunity to the government to be able to collect, in terms of taxes and other forms of revenue, a total revenue of over $100 million a year. What we're saying is that it's a business proposition that we are proposing to do. The proposition is going to be an entertainment and recreational complex which involves a casino. The casino is going to be the engine that drives it, a commercial type of casino that will drive it.

You'll probably notice that we've given you some of the statistics there and all that. These statistics are researched statistics from two very reputable firms. We've done two researches: one from Coopers and Lybrand and one from KPMG. Coopers and Lybrand did the first one and KPMG did the second one. KPMG, in more ways than one, confirmed Coopers and Lybrand's research, because we wanted to make absolutely sure before we went into this that we are not going to throw our money down a bottomless pit and that this is going to bring money not only to ourselves but to the region, to the provincial government, and most importantly, it is to make employment.

The statistics there state there's going to be over $122 million in revenue — if you look right through the brochure, you'll see it — and of that $122 million, it's going to go out to the provincial government. Of course, some of it will stay behind, hopefully for us and for the village and for everybody else. We estimated in the tax revenue, for the property taxes for the village and Lambton county, in the first year of operation a million dollars in development fees and taxes will go to the local authorities. In the final development, where the hotels and all the other complexes are added in, it's going to be about a $4-million annual contribution to the Lambton county coffers and the village.

1120

We will make 3,000 direct and indirect jobs — and again, I emphasize, without costing the government a red

cent. We, as the developer, and the banks are prepared to take the risk and bring this entertainment/recreational complex in.

Also, the economic spinoff — can you imagine? We've lost 6,000 jobs in the area. The Chemical Valley, in spite of the remarks stating they are now expanding — they are expanding but they're automating and in the process of automating, they're cutting down on the jobs. So far we've lost 6,000 jobs in the last 10 years. With this proposition we are proposing, it's going to bring back 3,000 jobs, and with it, the other economic spinoffs that will come in its wake as well.

The oft-stated statement by the government of the day says that we as a community should now be able to look after ourselves. We should be able to provide for ourselves. This is a wonderful opportunity here and now where we can put this philosophy to work. We in the region, if you can give us the opportunity, will be able to do the work, without costing the government a penny.

The details are all in the summary we've given you, sir. I must also emphasize again, ladies and gentlemen, that the money we're going to bring in, over 72% of it is going to be American money. It's not Canadian money that we're going to be taking. We're not recycling money from the left-hand to the right-hand pocket. We are bringing American money in to ensure economic regeneration.

Some people may have an objection about a casino, but I would like to point out, Detroit is going to get three big-time casinos going in there. They've already passed it. They're already on the way to developing three big casinos; commercial casinos, that is. At the present moment, there are already 13 commercial casinos in Michigan. Not many people know that. They're all situated on the Indian reserves in the centre of Michigan and the northern part of Michigan, and all of them are doing very well.

We visited one recently, about three hours away from us in Midland. They are now just putting in a $200-million expansion — hotels and other recreation facilities, including a casino and a bingo hall — and employment is full. They said they're employing about 1,200 people there, direct employment, and they expect indirect employment is going to be about two to one, so approximately 3,600.

The Indian band is building a new police station, new courthouses and the streets are being paved, and I'm not saying we should do this in our community but every single member of the Indian community is getting a dividend of US$17,000 to US$18,000 per year. These are the economic spin-offs, talking about the casino, it brings this way.

Why do we want to put a casino? It's simple: Because the casino is the one that will attract the Americans into our part of the country. They go past us daily on the bridge, they go past us on the 402, and with the construction of a new bridge which is now going to be finishing in August, we're going to have double the capacity. That's going to be one of the major highways into the United States and Mexico, so we in the region, in Lambton, want to take some of the traffic off the bridge into there.

How can we attract them? This has been taxing our minds for years. I've been on the business convention bureau, I've been on the tourist bureau. We've been trying to find ways and means to attract the Americans in, and what we have found from our research is the American is a avid game player. He loves his casino and this is one of the things that will attract him.

By just merely putting, say, a Canada's Wonderland — they've got it in Disney World, they've got it in Minnesota, they've got it in Cleveland, Ohio — it's not going to be any new attraction, but bringing a casino will be. We've found by market research that we have 26 million people within five to six hours' drive. This is the average drive time for a casino patron.

We not only want to bring the casino player in for three to four hours — I don't want to mention some of our casino competitors where they play for three or four hours and go home — we want to bring in the genuine tourist, because we have pristine water, we have an area in which we can accommodate the family. The family will come in for 24 hours, 48 hours. They'll stay there and decide about the delights and the attractions of the area, but the casino will draw them in.

Also, we have a boating population. There are 894,000 registered boaters in Michigan and over 200,000 registered boaters in Ontario. Together, they make over 1.1 million registered boaters.

So what happens? Nobody is catering to them. They come up and down the St Clair River, they look at us: "Oh, nice. Bye-bye." But we want that, we want to cater to that and there's a niche market for that.

Some people may ask me, why are you going to go and take a risk when you've got three casinos coming up in Detroit? Yes, we're taking that into consideration. We have a niche market. We've found a niche market. That's why we are confident when the casino comes in, together with the entertainment and recreation concept, it's not going to only benefit us, it will benefit the county. More importantly, our biggest shareholder will be the provincial government. They're going to get over $100 million a year, and we are prepared to bet on it by investing in it ourselves. It's not costing the government a penny. Thank you.

Mr Gerry Martiniuk (Cambridge): Very shortly, I just want to help the committee. Coming from Cambridge, with an unemployment rate under 7%, it is somewhat of a shock to go to this area where the unemployment rate is one of the highest in Canada, at 16%, I believe. But I just want to talk about the site. I chair the justice committee and when we were in Point Edward, the village, we had the opportunity during a lunch hour to just visit this site. It's one of the most magnificent sites I've ever seen. It's right on the river. The view to the American side is excellent. It's right beside the new twinned bridge and it has the potential to be a world-class site for this purpose. I was most impressed.

Mrs Lillian Ross (Hamilton West): Mr Lee, thank you very much for coming forward. I wanted to ask you a couple of questions with regard to some of the steps our government has taken since we've been in office to reduce government expenditures and to work towards eliminating the deficit so we can start working on the

debt. The deficit has been reduced substantially. Had that anything to do with your decision to look at what you're doing? Do you think that will benefit you if the government is in a more sound financial position?

Mr Lee: I think maybe the mayor could answer and then I could come in to that point.

Interjection.

Mr Lee: I could answer it.

Mrs Ross: Talking also about things such as when you're hiring employees, reducing the employer health tax, and those types of initiatives that have been taken by this government.

Mr Lee: I must say that what the government has done by reducing, cutting down expenditures and this and that, as a businessman I must congratulate the government for taking the initiative, taking the steps. But having said that, by downloading some of the expenses on to the municipality and on to the region itself and then telling us, "Look, you've got to find innovative ways and means of helping yourself," this is one of our proposals. We are saying, "Hey, thank you. You're getting out of our hair, but give us the opportunity now to help ourselves, pull ourselves up by the bootstraps."

This is precisely what we're saying to the honourable members. Give us a chance. There is nothing to lose. If anything is going to be lost, it's only our money and our bets money. We will make the employment because we have studies upon studies to say to that effect that we will make the employment. If you read them, you'll see that we're going to make approximately 800 direct jobs, and indirect jobs is about 1,200.

1130

Also, we know that 200 people from the Sarnia-Lambton region are working in the Windsor casino. They drive down there every day to get a job. They work there. They've been coming to us, to his worship the mayor, saying "What's happening?" every day. We can't even meet without somebody approaching us. "What's happening? Why hasn't the government made up its mind?"

Mr Kwinter: Thank you very much. I'm very interested in your proposal. I just want to make sure you understand the process. I'm sure you know that the two major casinos — well, the three really; one is on the Indian reserve in Rama. But the one in Niagara Falls and the one in Windsor with the riverboat are government-run institutions being run for them by operators that tender to do this. I assume that is the process the government would use, so they would (a) have to decide if they are prepared to put a casino into that particular area, and (b) would then put it out to public tender. How does that impact on your particular development if that were to happen?

Mr Lee: Mr Kwinter, I think I met you about 10 years ago in a duty-free line.

Mr Kwinter: Probably.

Mr Lee: We are very alive to what you have said. If it's got to go out to public tender, we are prepared to take our chances on that. We know the government has a present position that the government's going to run it and has the major say in it. We understand that and say, "Okay, fine." That's the position we've taken in our thinking.

But why we want the casino to come in is because we know the benefit that's going to spin off, be it government owned, be it privately owned or be it a combination of private or semi-privately owned. Does that answer your question?

Mr Kwinter: Yes. I just wanted to make sure you are aware —

Mr Lee: We are.

Mr Kwinter: When I looked at this presentation, it seemed to me that it was a private sector proposal. You say: "It's not going to cost the government anything. We'll run this thing. It's going to help us create employment and stimulate economic activity." To date, there have not been any casinos launched on that basis. I just wanted to make sure you understood that.

Mr Lee: That's what we said to ourselves: Is this going to be too good to be true for the government? It's not going to cost you a penny and everything I said earlier. It's not going to cost you a penny. We'll put in the building, and we'll say, "We'll even get a casino operator for you." Of course we want some rent for the building and this and that, but that's it. We say, come and talk to us. We will negotiate. We'll talk and we will come to an arrangement, I'm sure, that's going to benefit the whole region, and it won't cost the government a penny, one red cent.

Mr Pouliot: Thank you very kindly. I too appreciate your thoughtful and excellent presentation. This is a pre-budget consultation, and you feel that the venue to improve is through your proposal. You're simply asking for a licence to operate a casino.

Mr Lee: Can I answer that question? We came here to the pre-budget consultations to say, "Look, there's an opportunity for the government to get $100 million a year."

Mr Pouliot: A miracle. It's coming from all over: tales of Evita, and the money kept rolling in.

I just want to focus on your high rate of unemployment. You've mentioned in your submission that the real rate is in the neighbourhood of 20%; our take would be about one out of five. It was also mentioned by one of your colleagues that the young people are more directly impacted, negatively so. It's difficult for you to say, but you feel that this is the best way to do it.

The government says — it's easy for me to say; I'm a critic — that they will create 725,000 jobs. We want to wish them well. They've created some jobs and that's the truth, so they're on their way. Whether they reach 725,000 — this becomes an objective; it's not a commitment, because there are too many variables we don't know, but they feel they're on the right track.

You feel that 3,000 direct and indirect jobs would benefit the region, obviously, and you've made an analogy which you claim has some validity, that there is no saturation because another jurisdiction has so many small pieces of the action; there is no saturation and you can have many casinos and everybody will just come forward.

Well, there is $100 for entertainment in my pocket per month. I go to the cinema, I go to maybe one game, but once the $100 is gone, I am gone too. How do you reconcile this? I have some difficulties, not with your

presentation — and I wish I were as candid and as nice as you people. I am not a nice person; they made me this way. But don't you feel there is a saturation? You have one in Windsor, you have one in Niagara Falls, you have one in the native community.

The Chair: I think the question has been asked, Mr Pouliot.

Mr Pouliot: I thank you, Mr Speaker.

Mr Lee: I'd like to answer that, sir. We have taken that into consideration. We've taken into consideration the Windsor Casino. We've even taken into consideration that there may be two permanent casinos in Windsor, three are in Detroit. We've told the market researchers. They've looked at it and said: "Yes. There's still a niche market." As I said earlier, we've identified a niche market for ourselves. That's going to create — the first report says it will bring in $157 million and the second report, which is KPMG, says it's going to be $202 million, of which the government will enjoy a considerable windfall.

These small little casinos, they're fine. You're talking about the community casino, the little casino? They are there. They're good for the community. But the big casinos we have already taken into consideration. We are going to back big money into it. Do you think we are going to put big money into it without being quite sure we have a niche market for it? It's like me doing business; I'm not going to try to open a business if I don't have a market. I say we are prepared to back big dollars for that.

The unemployment situation of 15% or 16% — it's just been published 10 days ago — in Sarnia is one of the highest in the province. Real unemployment, as you know, sir, is not just 15%; it's probably about 22%. We know from our experience, and I'm sure the mayor can back me up, everybody we talk to knows of somebody who has lost a job, who is not working, or somebody's child is out of the province, has gone to the west, or he's gone to Toronto or to London.

Today I just bumped into somebody: "What are you doing here?" "I couldn't get a job at home, so I thought I'd come and look here." It's things like that. We feel that one out of five, practically one out of four-and-a-half people are unemployed in Sarnia-Lambton.

Mr Kirkland: You were talking about jobs and asking about unemployment. I talked to our welfare director at the county just before I came down here and he told me that the last 12 people who came in looking for welfare were all employable people. There are no jobs for them, and that's one of the big problems we have in the area with the young people today.

The other point I missed making before was that the infrastructure for this development is all in place. We did this back in 1988. We upgraded their sewage plant; we've got a state-of-the-art sewage plant; we've got secondary treatment. We've got a 42-inch watermain that runs right by the place and we've got 27.8 hydro. All the infrastructure, the zoning and everything else, is in place. The referendum's in place. All we need is somebody to say, "Yes, go ahead," and we can create these jobs and make it better for all of us.

The Chair: Thank you very much. We appreciate you coming in to make this presentation to the committee.

1140

GLAXO WELLCOME

The Chair: Our next deputation is from Glaxo Wellcome Inc. We welcome Jennifer Bowman and Geoff Mitchinson. We will have approximately 30 minutes to spend together today. I expect we will have a division bell at noon, which will signify the end of our session this morning.

Ms Jennifer Bowman: Thank you, Mr Chairman and members of the standing committee, for giving us the opportunity to appear before you today to participate in your pre-budget consultation process.

My name is Jennifer Bowman and I am the a senior manager of external affairs for Ontario for Glaxo Wellcome, responsible for health policy and government relations in Ontario. With me is Geoff Mitchinson, director of market access, responsible for health policy, reimbursement of our products, and pharmacoeconomics. Bill Laidlaw, who is familiar to a number of you, is unable to join us today because of a prior commitment in Ottawa.

I would like to begin by providing you with some background on our company. Glaxo Wellcome is one of Canada's largest research-based pharmaceutical companies, generating sales of more than $400 million annually.

We currently operate two facilities in Ontario, a head office in Mississauga and a manufacturing plant with development laboratories in Etobicoke. In June of this year, we will consolidate all our operations at our new, state-of-the-art facility which has been constructed adjacent to our corporate headquarters. We are excited about the opening of this new facility, which will employ 350 people in the production of tablets, creams and ointments, liquids and finished packages.

In total, Glaxo Wellcome employs more than 1,100 people in Canada. In the past seven years, our company has more than tripled its workforce with 80% of its employees located in Ontario.

Glaxo Wellcome is a leader in many therapeutic areas, including asthma, migraine, gastroenterology, oncology, epilepsy and anti-infectives. We invest more than $50 million in research and development, including $10 million in basic research, in Canada annually through partnerships with companies, academic institutions and through support of independent researchers. More than half of this is invested in Ontario.

Governments' fiscal policies, both nationally and provincially, have a significant impact on shaping the economic climate for innovative research and development-based companies such as ours. Knowledge-based companies are the economic engines of the new global economy. If Canada is to thrive in the global marketplace, it must attract and retain knowledge-based investment, investment that comes from sectors such as the pharmaceutical industry.

As a global corporation, Glaxo Wellcome Canada must compete with company affiliates worldwide for research

and development investment dollars and product manufacturing mandates. Consequently, the competitiveness of our operation in Ontario is directly related to the economic climate in which we operate.

When I was preparing today's presentation, I reviewed Bill Laidlaw's pre-budget submission from February 1996. It is truly amazing how much the environment and the economy have changed during the past year. As reflected in the presentation made to this committee by the Treasurer earlier in the month, the economy has improved significantly, resulting in the fortunate situation where government revenues have increased beyond target predictions.

During the past two years, the provincial government has made significant progress to improve the economic and investment climate for business by developing a plan to balance its budget, reducing non-priority spending and focusing on delivering core services, such as health care, more efficiently.

We recommend the continuation of the government's approach to ensuring a receptive business environment for our industry, which in turn will allow us to create jobs and stimulate economic growth in communities across the province.

I want to focus my remarks today on the largest part of the government's budget, the health care budget, which accounts for one third of all government spending. I'd like to discuss the role of prescription drugs today and in the future, with specific attention to strategies for realizing better health outcomes at a reasonable cost.

As a starting point, let me say that we agree with the goal outlined in the ministry's business plan to achieve a system that puts patients first and we would like to discuss the contribution of brand-name pharmaceutical companies to realizing that goal.

Our particular area of expertise is of course prescription medication, and in any discussion of medication and health care, the element of cost always arises. I want to address the cost issue from two perspectives: The first is the cost of brand-name patented drugs, and the second is the overall cost of the Ministry of Health's drug programs.

When you consider total health care costs on a national level, the largest part, 46%, is spent on hospitals, and that is why the work of the Health Services Restructuring Commission is so important in addressing overall health care costs. Some 14% is spent on physician services. Spending on medicines, including over-the-counter, patented and non-patented medicines and distribution costs, make up about 13.7% of the total. Patented brand-name medicines take up only 2.5% of total health care spending, and the cost of patented medicines is not rising. In fact, in 1995 prices declined by 1.75% over 1994.

Second, the cost of the drug programs for the Ministry of Health has not grown at a significant rate for the past two to three years. The small increases we have seen can be primarily attributed to, first, a larger number of patients receiving their prescriptions through the ODB as the population ages; second, a shift to care in the community, both in an attempt to prevent hospitalization and as a result of shorter hospital stays; and third, the introduction of new technologies.

Given these changes, an increase in the total costs of drug programs should not be unexpected, nor should it be regarded as an overexpenditure. As the health care system adjusts to the tremendous pace of change, the government should maintain the flexibility to put health care dollars where they are having the greatest positive impact on health.

It is well recognized that medication is one of the most cost-effective medical interventions available to us. Consider, for example, the impact of medicine on the treatment and prevention of tuberculosis, whooping cough, ulcers and, more recently, AIDS.

Unfortunately, a number of the strategies used to contain costs within a drug program focus on only the immediate cost of the program and do not consider the impact on the patient or on the rest of the health care system. Examples from a number of other jurisdictions, such as product delistings and therapeutic substitution, demonstrate that efforts to control drug costs in isolation often have a negative spillover into the rest of the health care system, as well as undermining patients' health.

There are ways of providing better health outcomes, at a reasonable cost. The first is to focus on optimal therapy, which is achieved when the appropriate intervention is applied to the appropriate patient at the appropriate time.

Glaxo Wellcome is involved in a number of activities to achieve this goal. For example, we provide ongoing clinical education to physicians in cooperation with a number of universities and physician organizations, including the Royal College of Physicians and Surgeons of Canada.

In partnership with Centenary Hospital in Scarborough, we have established an asthma centre which teaches patients how to better control their asthma and so prevents unnecessary emergency visits. We have partnered with Sunnybrook Health Science Centre to establish a drug safety clinic to treat patients with unfavourable reactions to medicines and educate patients and providers about drug safety and the best use of medications.

In every case, the primary purpose of these initiatives is to improve the health outcome of the patient. At the same time, the system is used more effectively and savings within the wider health care system are likely to be realized.

It is much easier to realize these savings in an integrated delivery system, where there are clear incentives to invest in initiatives that will result in long-term system savings and better patient outcomes. We support the stated intention of the ministry to move towards such a system.

Let me illustrate the advantages of an integrated approach using the example of asthma. Asthma affects between 10% to 15% of the population, with the juvenile rate estimated to be as high as 20%. Clinical studies have clearly indicated that the vast majority of asthma can be well controlled once it is appropriately diagnosed and treated. When the disease is not well managed, a patient may require emergency room treatment, inpatient hospital care and frequent physician visits.

Glaxo Wellcome has provided assistance to local hospitals to establish community asthma care centres

across the province, to put in place appropriate treatment plans and provide patient education on how to recognize asthma triggers and use medication and devices properly.

In a study done at Oakville Trafalgar, after one year of operation emergency room visits by clinic clients fell from 258 to 20 visits. Prior to participation in the program, a total of 45 hospital admissions took place, and following the program, this figure was reduced to three admissions. The cost of drugs for a properly managed patient may be more, but the overall health system costs are significantly less. This is particularly relevant in an integrated system, since the additional cost of the medication is more than offset by savings on other services, and the patient enjoys a better health outcome.

We therefore recommend that, recognizing the value of medicine to the health care system, the committee support management solutions, such as optimal therapy and integrated delivery systems, that focus on patient outcomes and lead to system-wide savings.

1150

A second and more short-term solution is to ensure that patients receiving their prescription medications through the Ontario drug benefit program have access to the best medications as quickly as possible. The process through which drugs are approved for coverage on the Ontario Drug Benefit Formulary is tightly regulated by the Ministry of Health, and while we understand and support the provincial government's responsibility to make cost-effective reimbursement decisions on drug therapies, we feel the process can be improved for the benefit of patients, the government, providers and manufacturers.

To its credit, the ministry has made a number of changes to reduce duplication with the federal government and streamline the number of submission requirements. The next step is to redesign, or re-engineer the approval process itself. In January we had the opportunity to present our views to the expert panel established to review the Drug Quality and Therapeutics Committee, which reviews submissions for the Ministry of Health.

Without going into great detail, we believe the provincial government's process can be made more efficient by limiting the mandate of this expert advisory group to focus on the most difficult decisions, which attempt to balance therapeutic benefit and cost. Our recommendations, which are consistent with those of the Red Tape Review Commission, would result in a process that would allow patients quicker access to more efficacious products, would allow the government to realize savings from lower-priced alternatives sooner, would reduce the administrative burden on the Ministry of Health, and would reduce barriers to business and investment in Ontario. We recommend that the government redesign the ODB submission process to facilitate quicker access to more efficacious drugs.

There are a number of strategies open to the government as it moves forward with health care reform. We are ready and willing to work with the government to implement workable solutions that focus on patients. We feel we can provide some unique insights, given that we invest $1 million to $2 million in market research annually to gain an understanding of patient and prescriber attitudes and how they affect utilization. We feel that our knowledge and expertise, gained through years of research and program development, can assist the government in achieving a better health care system.

We recommend that the government facilitate cooperative relationships between the private sector and government to work towards common goals.

The final area we wish to address today is the issue of patent protection for knowledge-based companies in the innovative pharmaceutical sector. You will all be aware of the parliamentary review that is taking place on Bill C-91. I know that the Pharmaceutical Manufacturers Association of Canada has already made a presentation to this committee, and while I don't want to completely reiterate their presentation, I think some of the fundamental reasons for supporting this legislation bear repeating.

PMAC member companies invested in excess of $624 million in research and development in 1995, a rate close to 13% of sales and well beyond our commitment of 10% of sales.

Price increases of patented prescription drugs averaged below the rate of inflation from 1988 to 1994. In 1995 prices declined by 1.75% from their 1994 level. Some 3,000 direct jobs have been created by the industry since 1987, and 3,800 indirect research-oriented positions have been created through universities, hospitals and clinics across the country.

PMAC companies paid $72 million in taxes in Ontario in 1995 and injected $1.2 billion into the Ontario economy. As a key centre for research and development within the brand-name pharmaceutical and biotechnology sectors, Ontario must take a leadership role by making a clear statement that it recognizes the economic development and job creation associated with these industries and values their continued growth in the province.

We are therefore asking the government to support our industry's need for truly international standards of patent protection in order to ensure that Ontarians benefit from the present and future potential of a dynamic industry.

In conclusion, I'd like to summarize our recommendations to you: (1) Continue with the fiscal plan to promote a receptive business climate in Ontario; (2) recognizing the value of medicine to the health care system, look for management solutions that focus on patient outcomes and system-wide savings; (3) continue with efforts to redesign the ODB submission process; (4) facilitate cooperative working relationships between government and the private sector; and finally, (5) actively support our industry's need for international standards of patent protection.

We appreciate the opportunity to appear before you today in what we consider to be an ongoing dialogue with the government, aimed at ensuring that Ontario continues to be the best place to live, work and invest in.

Both Geoff and I would be happy to answer any questions.

The Chair: Thank you very much. Can we try a three-minute round of questions?

Mr Phillips: Thank you. The Ontario Hospital Association was in yesterday and gave us a fairly strongly worded brief on their concerns about the health system, indicating that we are not coordinating very well our

health system. They didn't use the term "silos," but that's the jargon that's used.

I get a feeling from your presentation that we have a budget for hospitals, a budget for drugs and a budget for doctors. I might add, by the way, that I don't think we begin to look at managing our total health system. We think we're managing the big insurer, the Ontario government — the Ontario taxpayer is the big insurer right now at $17.7 billion, but there's another $10 billion or $11 billion spent on health care that's funded by other insurers or by individuals. Have you any advice for us on how we can better coordinate that $28 billion or $29 billion of expenditures on health care in the province?

Ms Bowman: I know there's an awful lot going on in the province right now through the Health Services Restructuring Commission, for example, which is looking at hospitals and how hospitals fit into the health care system.

I'd agree with you that we do need to better coordinate services. I think the focus has to be the patient and how to manage the patients within the system. Often patients find themselves pulled between different parts of the system. The system has to be integrated around the patient's needs, and I think that's what the asthma example shows, that if you can look at what the needs of the patients are in the area of asthma and address those needs in a coordinated fashion — there are physicians working with the hospitals, working with the patients; all of them play a role and they all come together to create both better patient outcomes and a more efficient use of health care resources.

Mr Pouliot: I am perplexed and intrigued by your lobby. As we are all avid readers, I seem to recognize the name of the company trying to elevate the art of lobbying from a vulgar profession to a most honourable one.

I would have liked to have noticed in your presentation and analysis that the drug program is open-ended, that it welcomes anywhere from between 7,000 and 9,000 new clients every month in the province. About 10,000 people a month go from 64 to 65; that's 120,000 a year. I cannot recall a year where it hasn't been oversubscribed. It's very difficult to budget because you're directly responding to public needs.

I also failed to see the extravagance of the Trillium program. When I say "extravagance," I'm talking about the accelerated, steep decline. I didn't see anything about 15% of the prescribed drugs never being used. I didn't see that.

But what I did get, and I say this positively, is a lament, a plea vis-à-vis the patent as opposed to acceleration to the generic drugs. I will be looking for balance, but this is for every government. They've been there, they're there, and we've been there as well: $1.5 billion is being spent on drugs when you throw in ODB, Trillium etc, and it is scary as hell. It's difficult to go into a doctor's office and come out of there without a slip of paper. I can go to the another colleague in the profession and get a prescription; if she doesn't get me one, I go to the next one. When you talk to people in the Ministry of Health, those professionals who are responsible for those programs, they share the same concern.

I want to wish you well. You'll survive, you'll do well, because demographics, I truly believe, is two thirds of everything. We're all getting older. The government's going to have to put the brakes on — delist, relist, go to generics — because they cannot make ends meet. I'm speaking on their behalf as well today.

Ms Bowman: I did try to make a distinction between the cost of drug programs and the cost of patented medicines. When we look at drug programs, some of the solutions we talked about around optimal therapy — and patient compliance is an issue, in terms of patients properly taking the medications they receive. We do a lot of work with physicians and with other providers to educate them about how to manage diseases and what appropriate prescribing is. So I do take issue a little with some of your comments.

I realize that the drug program is a unique program in that it's one of the few Ministry of Health programs that remains open-ended. But I think we did talk about some ways of better managing that particular area of the Ministry of Health, and I would say that we feel we have a role to play in the management of that program.

Mr Spina: Thank you for the presentation. Your head office is in Mississauga, but you're right on the line to Brampton.

Ms Bowman: Our parking lot is in Brampton.

Mr Spina: I want to pick up on M. Pouliot's expression and clarify a little bit that the last government reduced a lot of the costs by delisting some of the drugs. We do recognize that there is an increasing demand because of the aging population, and that's going to expand exponentially with the leading edge of the boom hitting 50 this year. Was expanding the listings of the drugs on the ODB plan at least a step in the right direction towards assisting the needs of the patients?

Mr Geoff Mitchinson: There are really two questions in there. Number one, what is the best way to manage pharmaceuticals? The evidence seems to be overwhelming now that if you have an open formula or if you allow physicians and patients access to the widest range of products, you tend to find that costs actually are not increasing dramatically; for some reason the evidence seems to indicate that. But more important, to Mr Phillips's point as well, the pharmaceutical intervention is probably the most cost-efficient way you can go about treating a patient. People don't suddenly turn 50 and start receiving pharmaceuticals. What happens is that they start getting sicker more, they get more disease —

The Chair: I'd ask you to summarize in about a minute and a half.

Mr Mitchinson: By all means. They get sick and they start using the entire health system; they're using hospitals, physicians and the rest. Pharmaceuticals in that context are a very efficient way of managing patients. Access to them is probably a very efficient way to contain costs and probably, in the end, the ideal way to be integrated into the system overall.

The Chair: We have a division, which is going to necessitate our adjourning. We will recess the committee until 3:30 this afternoon. Thank you very much for coming in and making your presentation to us today.

The committee recessed from 1203 to 1533.

ONTARIO FEDERATION OF AGRICULTURE

The Chair: We welcome the Ontario Federation of Agriculture to the standing committee on finance and economic affairs. Welcome, gentlemen. We have 30 minutes together, and we will be interested in your report. We will fill any remaining time with questions.

Mr Tony Morris: Before I begin perhaps you would allow me to introduce my colleagues: our general manager, Mr Gerry Gartner; our vice-president, Ken Kelly; our manager of research and policy division, Cecil Bradley. My name is Tony Morris and I'm the president of the Ontario Federation of Agriculture.

You have a copy of our brief. I would ask, to begin, that this be entered officially into the record. I will speak for eight to 10 minutes and then allow questions. I will perhaps not follow the brief. Just for the members of your committee who may wish to try and follow along, I would like to begin by saying we believe that agriculture at this time in Ontario, as we head to the 21st century, offers perhaps the greatest opportunity of any sector for both job creation and wealth creation for the province, both from a societal point of view and from the basis of economics.

There are many different demographic factors and economic factors we could cite to state our case, but I refer the committee to numerous briefs we've presented in the past, and to this one that cites a number of different economic factors. Rather than go through them in detail, I certainly encourage the committee to review the brief.

Agriculture is one of Ontario's economic success stories. We have one of the most diverse production bases anywhere in the world, producing about 230 different food and fibre products, and this diverse nature of our production is spread across the province from the Manitoba border to the Quebec border, down into the Niagara region, and of course Kent and Essex and the Windsor region of the province.

It contributes greatly to the economies in the local communities, and this is perhaps where we can highlight that this really is a true engine of growth for rural Ontario and offers a tremendous opportunity and potential for the viability of many smaller communities throughout Ontario. At the same time, the spinoff effect that it provides to the urban centres, with jobs in the food processing and food manufacturing and in the retailing sector, is just tremendous.

With about $50 billion worth of economic activity, we're the second-largest economic sector in the province. We're the fifth-largest agriculture jurisdiction in North America. We are gaining — and I believe have at the present time but I would suggest gaining as well — a worldwide recognition for the quality and for the degree of safety and regulatory standards we have for our food production systems that grant us opportunities around the world to access some of the real growing markets, particularly in the Pacific Rim. Our farmers are recognized as producing some of the highest quality in the world, and it is consumers who receive that benefit and who also recognize, we believe, the value of Ontario produce.

In all of this over the years, over many decades of production, government has been an integral strategic partner. As we've seen, the unique partnership of this collaborative benefit go to all sectors of society and to the Ontario economy. Today, Mr Chairman, with your committee, we want to emphasize the degree of importance we place on that partnership through the Ontario Ministry of Agriculture, Food and Rural Affairs and other ministries within the government.

It is in that regard that we have some concerns as to the commitment of government as it relates to its partnership, and we stress "commitment" because we believe that partnership has to be on a 50-50 basis, which we have had traditionally in a number of areas, both from a federal and provincial responsibility and provincial and producer responsibility. There are areas such as research. These areas of research are most critical as we move into the next century in areas such as value added, and there are many opportunities that we cite in new technologies, in biotechnology, gene transfer, enzyme production, that are going to offer opportunities to the province as we move forward.

Quality is another area where research has played an integral part. A very quick example I'll use is that our soybean industry has developed cultivars that are recognized for very high-quality oil production that is in demand around the world, and that can be said for many of our different crops. I do not want to miss any of them.

Also, something that's very important in the research is replacement crops for import replacement. We have developed new crops in this province that we're seeing grown now that offer the opportunity to replace some of the imports we've traditionally had.

Safety nets are another area where there's been strategic federal-provincial partnership with producers to offset some of the risks that are related to weather, some of the risks that are related to market prices, as we see trade distortion policies from some of our partners in the south and over the seas, and those kinds of trade distorting policies have not abated. They continue to this day.

Long-term stabilization through programs such as our net income stabilization account are critical to us, and we certainly urge this committee to gain an understanding of them and to recognize the importance of the partnerships that are being created.

As we move through the present-day terminology of things like decoupling, in other words, taking production-based subsidy systems we've seen in the past throughout agriculture around the world to more decoupled programs that do not base them solely on a producer's production but more upon the marketplace, Canada has been one of the leaders in that regard, and we've certainly led the United States which just recently in the 1995 farm bill has recognized just how much of a lead Canada has and has in fact now followed with some similar types of programs.

Education and training is another area. Research is critical, but unless we have the strong education and training facilities to take that research down to the individual production level, it becomes of very little use. We really urge you to take a look at some of the initiatives that have been driven in the farm community, such

as our Ontario Agricultural Training Institute, and I ask that the committee look very carefully at how they deal with agricultural training in Ontario.

Market development is another key pillar, we believe, in the infrastructure of the agricultural community. I repeat, Ontario has built an international reputation for high-quality suppliers of agrifood. It has been the Ministry of Agriculture and Food, through advertising programs, merchandising initiatives and our inspection and rigorous controls over health and safety standards that have ensured we enjoy this world-leading quality and standards, but we must continue to reinforce that image of Ontario's quality through its agricultural products. We urge the committee again, as they deliberate on budget recommendations, to think very carefully how important those kinds of images are as we enter into a global economy in the next century.

1540

Other recommendations we're making to the committee are based on a host of other issues that are important to not only farmers but indeed rural communities as a whole in the whole area of rural economic development. There are publicly supported drainage programs, rabies prevention programs, and for those in urban centres, you're well aware of the very real dangers that have been experienced in the United States with racoon rabies and how critical it is to ensure those kinds of problems that are being experienced there are kept from society in Ontario.

Intervenor funding is very important for us as we move through in looking at areas such as access to natural gas, access to affordable energy rates with Hydro and a host of other issues. Perhaps one of the most important areas to us, and one that is I'm sure on everybody's mind today, is viable, stable communities within the rural Ontario landscape.

With the change in the tax system and the reforms to our farm tax rebate, we really do urge government and this committee to think very hard and long about the ramifications and the effects it will have if rural municipalities do not have sufficient funding to ensure that there is a strong infrastructure of transportation, of societal programs such as health care and education, and the issues of technology in those communities — telecommunications — that provide the opportunity for youth in those rural communities to remain and become active participants in the economy of rural Ontario.

Many important areas are involved in environmental remediation and Ontario farmers are world leaders. We have been recognized around the world. At the 1992 conference on biodiversity, Maurice Strong, the chairman at the time, raised our environmental farm plan as an example to the world that the rest should follow.

These are initiatives that are driven by the farm community, by farm organizations, in partnership with our government sector partner, OMAFRA, and we really urge this committee to look very carefully, as we move forward in budget deliberations, to ensure that OMAFRA continues the kind of funding it needs to do the job on behalf of the farmers in the rural community. We have been very firm in our position of late that there should be no more cuts to agriculture, that if you really, truly believe in job creation in this province, the future of this province, and opportunities for everyone's children, then you cannot ignore the possibilities that agriculture and our agrifood industry will bring and the benefits that society will see as a whole.

I will stop there, and I will allow questions and be happy to answer them with the help of my colleagues.

Mr Phillips: I appreciate your comprehensive brief very much. You highlighted a couple of issues that are huge dollar issues for the government in its budget and did them in a way that I think is very useful. As you know, the government is involved in a significant transfer of responsibilities in taking education off the residential property tax and adding a substantial number of new costs. Our party believes they've added about $1.3 billion new costs and they're going to give about $335 million of extra revenue, so it's $1 billion in new costs.

Your signal in here I think for us, your concern about road infrastructure — and by the way, they provided no money for road infrastructure downloading or for the property tax reform, where they moved to saying you must tax at the rate of 25% of the residential. Also, as you know, in many of your rural communities, policing historically has been provided and funded by the province. That's now going to be funded locally.

I guess my question is this: If we are correct — and we think we are correct, and the government has not been able to refute the numbers that the government is downloading $1 billion, and that for many rural communities it could be substantial because, as you point out, many of the roads that are going to be transferred will be in rural communities — have you any advice for us on the impact that might have if there is a significant shortfall in the costs the government is transferring versus revenue the government is transferring on things like community policing, on things like roads and the property tax at 25% of the residential property tax?

Mr Morris: It's very hard for us to give a definitive answer as to what the impact will be specifically in small terms. Perhaps what I can talk about is looking at the macro-picture.

We are very concerned with anything that is going to leave Ontario farmers in a position where we are not competitive in this global marketplace. Our tax system must provide us with the opportunities that, when we're running our businesses, it does not place an unfair burden upon us. Our transportation system has to be such that we move products quickly and efficiently to the marketplace. When we receive reports in our office about bridges having a 50% loading capacity put on them because of the lack of funds to repair them and the farmers are unable to get their trucks across with full loads of feed, that causes us concern because that gets directly to the competitive nature of our industry and our ability to compete on the world economy.

Much of what we produce, some 54% of Canadian produce, is marketed in the export market. In Ontario we enjoy almost $5 billion worth of exports. The Premier and our minister, Noble Villeneuve, have indicated they wish to see that double to some $10 billion by the year 2000. Ontario farmers have responded and said, "We can achieve that," because along with that growth in exports will come a multitude of jobs, many thousands of jobs.

Although we cannot correlate exactly, the federal minister has indicated that for every $1 billion worth of exports at the federal level, there are some 15,000 new jobs.

When we look at the infrastructure that is there in rural Ontario to ensure efficient transportation, to ensure an efficient and competitive labour force, to ensure an efficient and competitive tax system, then obviously we have a great deal of concern about the different methods used to correct problems that there may be with the economy. We have offered on many, many occasions, and continue to do so and have been pleased to be part of many discussions as to how some of those changes may affect that competitive nature of Ontario agriculture.

Rural development is another key issue. Many of our youth today are moving from the rural communities to the cities. That has a dramatic effect on the tax base in many of those communities, and indeed upon the future of the management and labour force that will be available. We have to provide the infrastructure that ensures we not only maintain but we attract that rural youth to the communities for the future of this province and our industry.

We try to look at it on a much larger scale, rather than to get down to individual items, but we are very interested in seeking investment into agriculture. From an agricultural budgetary standpoint, we don't view it as a budgetary expense for the government of Ontario; we view it as an investment into the future of the province.

Mr Pouliot: Thank you very kindly and thank you again for the courtesy extended to me. I not only recognize the name, but it's a renewed pleasure. Some of us go back in our debate some 12 years now, and you've been most consistent, in fact the voice of farming and farmers in Ontario. Your brief states that you have 40,000 members. If we factor in the indirect component, you'll reach 12.5% to 13% of the labour force.

1550

Most countries in the world pay special consideration to their farming community, to an industry that feeds its people, and those incentives are mostly by necessity. Since we're one of the few countries that export more than we consume, sometimes we feel that we're not as necessitated. We are as worthy but we really don't need, given the marketplace and our force in export, the same special consideration.

Mr Phillips, the finance critic for the official opposition, has mentioned that, yes, there will be a decrease. The government has decreed there will be a decrease in road, in infrastructure. In fact, the CSR, the Common Sense Revolution document, states that no less than $300 million will be taken out of that infrastructure under the Ministry of Transportation. We've now experienced, in January, the second instalment of a tax cut, the 30%. That's supposed to filter through. We'll watch the future closely, but that's going to cost $5.4 billion when all four phases of instalments are implemented, and they said they would — we want to wish them well — balance the budget. Simply put, all those things cost one heck of a pile of money. There's no getting away from it.

But times are good times. The money keeps rolling in, but in short order the money will have to come from production. It will not come from tax revenues, so the one third of the money that comes from the PIT, the provincial income tax, will have to made up elsewhere. As we continue to ride that bull market, revenues will become the real bitch that they really are — there are no other words for it — and it will become a challenge of enormous proportions.

The Chair: I'm not sure that's parliamentary, Mr Pouliot.

Mr Pouliot: I have some questions. You state in your comments that you're concerned about the government's commitment when it comes to a safety net. You're concerned that when you start to decipher between the schemes, you'll be left holding the bag, you'll really be on your own, that the partner won't be there. Not that you'll be out the door, but you will have gotten older, you will not be as consequential, and you'll be asked to stand on your own two feet. When the market conditions change, will you be able to do that?

I've read in your brief that you commend the government — most people do that; they're generous and heaven knows they're patient — but when you develop the theme down the line, where are the pitfalls in the next year or two? If you were to press a switch here and identify one, two, three dilemmas, impasses that you will have to face with this group, what are they? What do you fear most in the future?

Mr Morris: There are a number of fears that could be brought to light, particularly as we look at trade discussions at the World Trade Organization, but what we look at is, let's look at the opportunities and how committed is the government to the opportunities, and indeed society as a whole? What is society's view of having one of the strongest agricultural economies in North America leading the job creation and wealth creation that the province so desperately needs?

If we just think of three billion people within a five-hour flying time of Bangkok who don't have the ability to feed themselves and we think of the resources that we have in this country, if we think of 640,000 jobs that are offered in the agrifood industry in this province, there's no other sector in this province that can boast as many jobs as agriculture and agrifood, the economic activity that we can create, and yet we still have the ability to do far, far more. So there are many things that we can say we fear because we don't know what they will mean, but from the Ontario federation's standpoint we like to look at, what are the opportunities where, together, we can really create a future for the province?

We don't know what World Trade Organization standards will come down. We don't know what will happen in an economy such as North or South Korea. We can only guess. But what we can do is look at the opportunities and try to show the province and the people of the province that land use is so critical to us. We cannot afford to continue to lose farm land if we're going to move to the future. We cannot cut agricultural research when the opportunities are so great in the economy. We cannot cut our risk management tools, such as our safety nets, when we see the global competitors that we are competing against enhancing their agricultural programs. We can't cut things like our educational programs in agriculture at a time when the need for knowledge is so desperate.

Yet here in the province of Ontario — almost 30 years ago we put a man on the moon — we've still got 60,000 people who are on four-party lines and can't access a fax machine, let alone get on the Internet. We simply have to address some of the very basic infrastructure needs that rural communities need, that farmers need to be able to go after that global marketplace so that we all benefit.

There are many things that we fear but I would rather look at the opportunities, as we do in business, because we think they're there but we believe that's in partnership.

Mr Toby Barrett (Norfolk): I want to thank Mr Morris and colleagues for coming out this afternoon. I know the federation has been hosting meetings all across Ontario with respect to farm taxation and I think much of this is generated from recent announcements by our government with respect to the elimination of the 26-year-old interim measure, the farm tax rebate. I had the pleasure of attending both the Haldimand federation and, just last night, the Norfolk federation meeting. There were about 150 farmers out.

The discussions are not only getting rid of the farm tax rebate and, as you would know, setting the farm residential and one acre of land at 25% of the residential rate, but the discussion of yanking education off property tax and off farm land. Many seniors, municipal councillors and farmers themselves certainly have asked for this measure, and sometimes when you ask for something, you get it. This has opened a Pandora's box and it has become very confusing, especially for some urban people, to understand what's going on with respect to the change in taxation.

How would you see farmers and the federation helping to explain to urban people some of these changes, and secondly, how can you help us achieve our commitment of a 10% reduction in property taxes by the year 2000?

Mr Morris: To go to your last question first, if I may, we believe that to fulfil that commitment will be along the same lines as what we believe to fulfil the desire of the Premier to double our exports. It will be a partnership. We're not going to do this if we see continued pullbacks by our partners as we move forward.

You made the comment about 25% of the residential rate. Perhaps for the committee I may clarify. It is farm land — not the farm — the production base that is taxed at 25% of the assessed residential rate. The farm residence, the bricks and mortar, are at the same rate. I think that's a misunderstanding by a lot of people because for 50 years, since 1949, farm land has been recognized as being unfairly taxed.

We have been consistent in our voice saying that people services should be paid through the income tax system, not through the property tax system. We believe very strongly that if there are to be people services, then that is the best way of doing it. We believe there are many different things that can be done to enhance the tax system. Our tax working group has made many recommendations, one of which is the reinvestment into rural communities, the municipal sector, so that those areas that have a strong agricultural base are not going to be impacted by the loss of the farm tax rebate. The tax rebate was not a subsidy. I want that on record. It was never a subsidy. It never will be. It never has been. It has been a rebate of taxes that should never have been collected in the first place.

1600

We will work very hard because we believe that if you are going to see a reduction in expenditure or a reduction in taxes, it comes about from the creation of jobs, from the creation of economic wealth. If you can think of another sector around this committee that will give you as much economic growth in the future of this province as agriculture, then we would love to know what it is because I've heard no one in any other industry say they are going to double their exports by the year 2000 — no one.

The Premier of this province has written to me, the Minister of Agriculture, Food and Rural Affairs has made the statement that they believe we can double it, the farmers agree, that we believe we can double it, but we can't do it without our sector partner, that of OMAFRA.

When you talk about how you will achieve it, you will achieve it, if I may be so bold as to say, because you invest in agriculture and food and recognize its importance. You will see the benefits of increased job creation, increased taxes from those people who are actively working, and it will allow you then to decrease many of the other taxes that I know so many people are asking to be decreased.

But this is the sector that will do it, and before I close, I'd like to bring an example of that. At this committee last year, this organization, the OFA, made recommendations for the removal of the provincial sales tax on building materials for the farm community. We're very pleased the government took the advice of the federation, and over the past year we've had that reduction in the provincial sales tax and we've seen the results in rural communities. We've seen the kind of building boom that's taking place on many farms as they modernize and expand their operations. The beauty of that system is that it is local labour with Canadian material.

We urge this committee to review very carefully and make the recommendation that you continue that program and continue the programs, such as Grow Ontario, that provide such value to the communities and to the agricultural sector in looking at new initiatives and new research and new market opportunities to compete with the growing global marketplace.

The Chair: We appreciate your appearing before the committee today and sharing your views with us. Thank you very much for coming in.

ONTARIO SAVE OUR JOBS COMMITTEE

The Chair: We now welcome the Ontario Save Our Jobs Committee, Mr Tighe and Mr Dickson. Welcome to the standing committee on finance and economic affairs. We have 30 minutes to spend together if you'd like to start with a brief. Are there samples available?

Mr Dick Tighe: As a matter of fact, part of the presentation will be that we are going to — I didn't want to bring anything into the place because I wasn't positive it would be proper. We have a small sample that each member of this committee will receive tomorrow. it's a new product that we have and we will have it delivered

here. I just didn't want to be presumptuous enough to bring it and violate some rules. That would not be the way to impress a committee.

The Chair: I understand. Our conflict-of-interest rules would not allow us to accept anything we would not receive if we were not MPPs. I'm not sure whether it's a conflict or not.

Mr Tighe: You ought not to have a problem.

The Chair: Please proceed with your presentation.

Mr Tighe: First of all, I'd like to introduce myself and tell you a few things about me. My name is Dick Tighe and I have with me today a representative of the Canadian Auto Workers who's a member of our Ontario Save Our Jobs Committee.

I appreciate the opportunity. To be last on a committee is not the easiest time. We will try not to bore you and we will try not to keep you here even the 30 minutes if we can help it. We should be able to get our point across.

The Chair: We are going through till 6 o'clock and you're the second one this afternoon. So we're fresh.

Mr Tighe: Okay, fine.

I've been employed in the distillery industry for some 37 years. I've watched it over those years and I've seen it grow. I was the president of my union for some 15 years and represented the employees in that particular plant, and then for whatever reasons I was chosen to get into the marketing field and became a sales representative for them. So I've been very close to it, but also close to the people I work with, the employees, and understand maybe their plight, to some degree.

I'd like to speak briefly on some of the things that are happening to them and how the Ontario government and the federal government, for that degree, play an important role in what's happened to them as of late.

The tax on liquor is some 83%. Eighty-three per cent of the price of spirits is taxes, either federal or provincial. The provincial government's is the largest share. When we address this issue with politicians, very few differ with us that we do not have a problem, and that it's impeding our business. Most of them recognize that problem, but very few can find reasonable ways of amending it.

One of the situations that exists today is the rate of tax on spirits in comparison to beer and wine and the difference is significant. This is causing a downturn in our business, and I want to address that first.

The beer industry is taxed at the rate of some 60%. It could be a small amount less, but that would be approximate. I believe the wine industry is 55%. Our industry is 83%.

We cannot bear that difference. We need some type of help to close that gap so that we can compete fairly in the marketplace. We're not talking about improving and increasing volumes of people drinking; we're talking about people in business who have to survive and who have to compete against each other.

Just yesterday I bought a Chrysler minivan and I had to pay the total tax of 15% on that minivan. That's fair. Chrysler had their price and the government's entitled to its money. But had I bought a pickup truck, had I bought a Ford instead, had I bought a GM product, that tax still would have been 15%. So it was equal and fair for all those in the same business. When you look at the spirits industry and the liquor industry and the brewery industry, the difference is significant. Those in the distillery industry are at a complete disadvantage and have a very difficult time competing in the marketplace.

Somehow this situation has to be addressed. If something is unfair, and most of the politicians we talked to recognize that it is an unequal situation and ought to be amended, I ask you the question, is it right to just let it continue to exist? I know the problems you're faced with. I know the cutbacks. I'm also the mayor of my community and have been for some 15 years, and sat last night up till 11 o'clock on a budget, and the Ontario government's name came up more than once, as you can well imagine. To be honest, there are a lot of people recognizing what they're trying to do.

Mr Pouliot: That's all that's left of the bottle after last night?

Mr Tighe: There's a whole story behind that, but I'll let my friend tell you about that.

We are trying to preserve the social programs, so we know what you're up against, and we know when a group like ours comes before you and says, "Look, we've got a problem with taxes," the biggest problem you've got is you may recognize that problem, but how do you solve it?

Recently, and I believe it's coming into effect, you're taking some of what you call the equal assessment, in so far as property taxes are concerned, and I think you're all familiar with it. It's a time bomb. We did it in Essex county so I know about it.

The easiest thing would have been to leave it alone and just let the thing stay. But we're obligated to serve the people as elected politicians so we didn't do that, and this was the Ontario government. They're trying to do the same thing in Toronto, as I understand, today, which is going to be a difficult task.

1610

We had a situation where somebody was not paying enough tax and others were paying on their behalf. The provincial government said, "That's wrong." We went to our constituents, and we had some real battles, because they said, "Why should I have to pay more taxes on this?" Somebody was paying too much, and that wasn't right. It was amended, and there was a lot of criticism at that particular time. But in the meantime, we bit the bullet.

What we're suggesting is that we've got to some way close that gap between the wine industry and the liquor industry. Give us a chance to survive. Give us a chance. We're not talking about increasing volumes of spirits; we're talking about having our products on equal footing so that we can survive. This has cost us thousands and thousands of jobs. It's not the only thing, and I'll get into the others as I go along.

The total tax on a 750 ml bottle of liquor in Canada is \$16.14; in the United States, it's \$5.51. This is what we have to deal with. It amounts to 83% tax for Canadian spirits and 44% on US spirits. In the United States, a 750 ml bottle costs \$9.50. On the black market, which is very significant, which is costing us tax dollars and jobs, it costs \$13 for the same bottle that costs \$9.50; in Canada,

the cost is $20. You can see how the black market survives. They get $13, and they only pay $9.50 for it. That's a good profit. All this is in Canadian dollars; it has nothing to do with US dollars. A 1.75 litre bottle of spirits in the United States is $16; on the black market, $28. We did a test in Windsor in one of the parking lots in one of the factories, and in 10 minutes we had an individual purchase a 60 oz bottle of smuggled liquor, 1.75 litres, for $25. In Canada, it costs $45.

Just recently we attended a court case. We were to appear on behalf of the crown to testify on the impact smuggling is having on our industry; fortunately we didn't have to, because the defence did not argue that issue. The individual involved was sentenced, you may have read recently, to some six years in the penitentiary and a $1-million fine. If he doesn't pay the fine, he's got to do three additional years.

What we're talking about here is thousands and thousands of cases of whisky coming into this country via one individual. I believe they estimated that they know approximately 350 loads came into the province via this one individual. The mounted police, I believe, spent somewhere in the neighbourhood of nine months investigating this individual. Somebody has to pay those costs. The bottom line is, we all know who pays: It's the taxpayer.

But the big thing is the revenues that were lost. At least the judge in the end believed that a good portion of the money had been removed from Canada and was on the islands. This is where the $1-million fine comes in. The individual had a Mercedes, had an airplane. His licence plates had the initials "SM" on them; it's short form for "Smuggler." That's pretty blatant, but there are hundreds like that.

We sat with the mounted police for a two-day seminar in Cornwall. They tell you they can't begin to touch it, because we've created a market for it, and as long as there's a market, they're going to continue smuggling. We killed that with the cigarettes. We don't compare ourselves to that, because the cigarettes that were being smuggled were Canadian cigarettes that were made in Canada and sent back. At least we didn't lose the jobs. You lost the taxes, but you did something about it. I believe that if you looked very closely at the picture, you would find that the amount of revenue lost, if any, was very minimal and the jobs were saved.

When I talk about that industry, the people who were complaining were those in the small grocery stores, who weren't selling milk and bread and things like that because people weren't going out to buy cigarettes. If you ever talk about anything that was blatant, they were selling them on the streets right out in the open in front of the police. It was sort of accepted. You could buy them in Windsor at legions and everything.

I was in Sarnia recently making a call at a licensee, and two cars pulled into the back of the parking lot. The individual came in to talk to some customers. Both cars opened their trunks, and they were full of 60 oz bottles of spirits. They were selling them as fast as they could hand them out; $22 for 1.75 litres. We can't compete with that. We've created a market for illegal activity. In the meantime, the ones who are suffering are the employees who are employed by the industry and, most of all, the taxpayer, because when you don't get the money and the federal government doesn't get the money and the municipal government doesn't have the money, they can only turn to one individual, and that's the individual at the bottom, and that's the taxpayer. That money is gone. The jobs are gone, and they're non-recoverable, can never come back.

Ladies and gentleman, the fact is that 25% of the spirits consumed in Canada are illegal spirits. This is not Dick Tighe saying this or Ron Dickson; the mounted police will tell you this. It is costing us millions and billions of dollars, and it's lost because we've created that avenue. Where do those illegal dollars go? We don't know. But we know one thing: They don't go into the United Way, they don't go into Meals on Wheels, they don't go into social services and community service groups that look after the seniors' foot care; they don't do that with it.

They go into drugs and prostitution. The provincial police or mounted police were following an individual not far from the city because of alcohol smuggling. They had to turn their attention, because this same individual was involved in child pornography, far more serious. That's the type of thing these illegal dollars are going to; they're not going to the good of the people in this province. That's the tragedy of it.

The lost federal revenue: In Quebec, they lose $47.8 million in lost taxes; in Ontario, which is the bigger, it's $84.1 million. This is federal excise revenue lost, but these are the provinces' figures. In all of Canada, $159.4 million is lost.

Provincial: The province gets the biggest share of taxes on spirits, not the federal government. In the province of Quebec, $173.8 million is lost on illegal spirits, and this is in a year; in Ontario, $295 million. How many hospitals and how many of the cutbacks that are taking effect could we do if we had that money?

It may not seem like much in the big picture, but if you live in my town, in Belle River, the people there are concerned they may not be able to keep the transit system for seniors. We don't know if that's going to be cut back. That's big money to them, if you just trickled down $4,000 or $5,000, because they're not sure they're going to be in existence, the transit system that we paid for, not the Ontario government, the service clubs.

1620

Honestly, I'm not trying to be critical here; I'm trying to be honest and let you know. What could we do with those revenues if we had them? How much good could we do in this country and in all of Canada — $600 million; that's a lot of money. This does not speak to the jobs it would create when the people go to work and the people produce the product and the spinoff effect. That's what we're talking about.

The impact of smuggling on the manufacturing facilities: I don't want to attempt to mislead you that the total decline in spirits is all due to smuggling. There's certainly been a change of lifestyle and people are becoming much smarter and it's good and it's healthy and we recognize that. But we know that at least 40% to 50% of the decline is due totally to smuggling, and those jobs

will never be back. In Quebec we had six plants; three are closed, all this in the last 10 years. In Ontario — that's our province — we had 15 plants; nine are closed. That's a lot of jobs gone.

When we talk about the jobs we're also concerned about the spinoff jobs. We had the group just before us, the agricultural group, their concerns, because if you're not making alcohol you're not using grain. So it is with the people who make the bottles, the people who make the boxes, and it goes right on to trucking. It goes right on down the line.

The impact on employment: I'll close with that because I think that's going to cover us. We get into billions of dollars that are lost. But I'd like to talk about employment because that's what I'm here for. I don't represent the corporations. I'm not a lobbyist. I don't get paid for what I do. I receive no pay. But if I can help save 100 jobs or 200 jobs or 300 jobs or stop one distillery from closing, then I'll have done my part; a pretty satisfying experience when you go home if you can say, "I helped contribute to save those jobs."

In Quebec, 5,200 jobs lost; in Ontario, 9,400 jobs lost. What could we do with those revenues today? What could we do with those taxes that those 9,400 people would pay, and especially with what's going on with education and everything? In Canada a total of 22,850 jobs.

I'd like to turn it over just briefly to my colleague Ron Dickson, and then I'll have a closing remark and we'll wrap it up.

Mr Ron Dickson: The reason I brought this bottle along was to dramatize. This is not an 83% tax rate. This was done up for a presentation for the province of Alberta. They're much more generous; they only charge 80% tax. So you have to remove about 3% in your mind when you look at this bottle, take about 3% out of what's left and that will come through an 83% tax.

I'm not here defending the distillery. They've got people to do that themselves. But out of what is left in that bottle they have to buy all their materials, engage in collective bargaining with us, pay wages and all the other things they have to pay out. I don't know how much is in there, about two or three ounces of whisky. All of this went to the government, either federally or provincially, but mostly provincially.

At least the province does something to earn that money — it has set up a system of distribution of that product which is very effective — but the federal government literally doesn't do anything. Years ago you had to have a federal stamp go over that cork before you could put it on the market and those stamps were supplied by the federal government. You go into any liquor store today, you won't find one of those stamps. They don't even do that now. That cost a tremendous amount of job loss in that industry, just the removal of that stamp.

In many respects the federal government is more responsible for our condition today than the province, because at least the province does something. I have always believed that taxation of liquor and beer and wine is a fair means for government to raise revenue. Twenty years ago, had I been asked to come here, I would not have come, because 20 years ago, when you had that vibrant, healthy industry with lots of employment and lots of profit, they could absorb an 83% tax rate. I've been in the industry for 38 years with Hiram Walker in Windsor, and I'm convinced they can no longer absorb an 83% tax rate.

One of the most labour-intensive operations in distilleries is the bottling operation, and you'll find mostly older women in these jobs. It's those older women who are now being thrown out in the street, because the best-selling Canadian whisky in the United States today is called Canadian Mist and it is bottled in the United States. Hiram Walker in Windsor and Seagram in Amherstburg are only a step away from exporting all those jobs to the United States. That will be a tragedy for the city of Windsor because Windsor and Amherstburg are dominated by the auto industry and we all know how cyclical that is. You have these tremendous highs and tremendous lows, so Seagram and Hiram Walker help diversify the economy of Essex county. If they close, we'll have lost much more than just another distiller. I might add that the Hiram Walker distillery has been on that same site since 1858, and that would be a tragedy of historic proportions.

As Dick said, we have talked to the Alberta government, we've talked to the federal government, we've talked to the Ontario finance department, and we're getting a little bit of a runaround. We go to Ottawa and the people there will listen with interest, they're very polite, but then they say: "Yes, but what will the provinces do? If the provinces make a move, then we'll make a move." So we go to the provinces, and up to now they have said: "Have you been to the federal government? If the federal government makes a move, maybe we'll make a move." It's very frustrating.

1630

There have been 19 distillers closed in Canada in the past 10 years. I suggest if that were any other industry but this industry, it would be regarded as a national crisis, as this should be.

I know the social problems associated with this product, you can't hide from that, but the vast majority of people who drink do so in moderation. Some people can't, even in moderation, so the best bet for them is not to touch it at all.

We're not asking here for a cut in that tax rate. I don't think that's necessary. I think what we have to do is even the playing field a little bit. What we're suggesting, if you look at it closely enough, would be revenue-neutral. It's not easy for any politician at this time, when we're closing hospitals and cutting medicare, to say, "Yes, let's cut the tax on distilled spirits."

The Chair: Gentlemen, I wonder if I could ask you to sum up in two minutes.

Mr Tighe: I won't be long. First of all, again, I appreciate the opportunity to be here.

I have a letter here from Mayor Hurst of the city of Windsor. If Hiram Walker did move to the United States, it's in here the amount of revenue that would be lost to the community and the amount of jobs. There are also two other municipalities in Essex county — they would be Amherstburg and Maidstone townships — that would be adversely affected if either Seagram or Hiram Walker

moved. So their mayors have come from time to time and made presentations.

What we ask you to do is take into consideration what we've said and remember what the government of the day has said. They have said they will take away those things that are impeding the progress of industry. That has been their mandate. They have said that and they keep saying it, but they're not helping in this particular industry. We need help and we need it now. Tomorrow will be too late.

I thank you for your time, sir.

The Chair: Thank you very much. You've used your 30 minutes so we won't have any time for questions, but we do appreciate your making a presentation to this committee today.

Mr Tighe: I'd like to leave this letter, if I could, from Mayor Hurst. I do not have 30 copies.

The Chair: If you give it to the clerk, we'll have it duplicated and distributed to the committee.

Mr Tighe: I'll give Mr Carrozza the little — it's just an example of something that costs us 34 cents but we have to pay $2.25 to even give it away — so it tells you a little something when you see it tomorrow. Thank you very much.

DAILY BREAD FOOD BANK

The Chair: We now welcome the Daily Bread Food Bank to the committee, Ms Cox and Ms Brown, I believe. Welcome to the standing committee on finance and economic affairs. We have 30 minutes to spend together.

Ms Sue Cox: I'm Sue Cox and this is Beth Brown, one of our research workers at Daily Bread Food Bank who has done some of the work on the brief that we've put together.

I'd just like to explain to you, if I may, and take a minute to talk about who Daily Bread is and particularly what our interest is with the finance committee.

We're the central organization in the greater Toronto area for the solicitation of donated food products and distribution to about 160 different food relief organizations right through the area.

We are a membership organization. The members are the food relief distributors, food banks, hostels for the homeless, children's breakfast clubs, meal programs, programs for moms and tots, prenatal programs and so on and so forth.

We also work with other food relief organizations in the GTA, sharing information and statistics about hunger and the need for charitable food relief. Our member agencies, for instance, report monthly to us the number of people they served the previous month, and a lot of our statistical data are based on their reports. We also do primary research with food recipients, annually interviewing about 1,000 food bank households about their situation, about their history, so we can design our programs better to assist them better, and also for public education purposes and for the information of committees like yours.

We don't receive government funding. We don't want it either. We rely instead on the general public, primarily on the business food industry for donations to the food bank, but on other parts of the business sector for a lot of the things we receive. We operate on a very tight budget. We primarily solicit goods and services.

We're committed to ending hunger. We're committed to ending the need for food banks. It's often been said that we want to put ourselves out of business, and we do, because we think a humane society will find better ways to ensure that people are fed than food banks.

I think the most important thing, and perhaps the reason why we're here, is that we're in a situation right now where the charitable sector is just unable to keep pace with the hardship that's resulted in part from unemployment but in part from the cuts this government has imposed on the very people we serve. We'd like to just spend a bit of time giving you a snapshot of what's happening to us, a picture of the people who use food banks, and I hope some constructive ideas that we have about what might be done about it.

Food banks have had a struggle for many years now. Food bank need grew right through the 1980s, even when jobs were very readily available. Then food bank users were primarily single moms and people with disabilities, and the problem was that the cost of living, particularly the cost of rent, was rising.

Food bank use, of course, went through the roof in the recession. We had an incredibly difficult time keeping pace with the number of people who were using food banks, but as employment improved, the numbers went down. By the summer of 1995, food bank use was very low; not as low as it had been perhaps in 1988 and 1989, but still a very heartening trend. Things changed very dramatically when welfare was cut. At that point, once again our numbers went up to something that looked like the recession numbers we'd been dealing with.

We think we're beginning to see a slight decline right now in numbers. We couldn't be happier about that. It's too early to open the champagne, but there does appear to be a little bit of trending down. Improved employment is the reason for that, but we're far from out of the woods now. We're still really not able to cope with the number of people seeking help.

Let me just give you a snapshot, as I say, of some of the folks we're seeing and what their situation is. Interestingly, the worst hit by what's been happening have been two-parent families with kids — I think there's often a bit of a stereotype about young singles or about single moms — but while they are not the most numerous group of people, they certainly are the ones who are suffering the most significant hardship.

For them, when their welfare was cut by 21.6%, their after-rent income was actually cut by more than 50%, so they lost half of the income they had to buy food at that time just because of the structure of welfare. Three quarters of the two-parent families with one child and 84% of the couples with two kids diverted part of their welfare basic allowance — in other words, their food money — to pay their rent. Many of them paid rents that were 50% above what welfare was able to pay them for their shelter, and that's the main reason for their need for food banks. Their situation was significantly worse than any other group.

The policy that makes it worse for two-parent families makes sense in times of good employment; it makes no sense in times of poor employment. At one point it would have been an incentive that one parent should have been able to find a job. A lot of the families we're seeing now — well, all of the families virtually — simply cannot find work.

1640

It's interesting, the recent study that the National Council on Welfare came out with also found that, across the board, this is not just food bank users. Couples with two children living at 67% of the poverty line are in a worse situation than single parents who live at 75% of the poverty line. These families that we're seeing now can't move to cheaper accommodation because the ability to move has been cut, and anyhow, for a two-bedroom apartment in Metro the vacancy rate is 0.6% right now.

Their situation changed quite dramatically after the welfare cuts, but single parents are still at higher risk and the majority of them are headed by females. Some 15% of the children of single parents we see at food banks go hungry at least once a week. There are some charts in the brief that outline some of the impact of hunger on a lot of those families.

Single parents have various constraints in entering the job market. We've noticed, for instance, that many of the young, employable males who do not have children to support oftentimes have been able to survive because they're able to pick up odd jobs. They'll get a call, they can go out and deliver flyers tomorrow or something. The single mom doesn't have the child care opportunities to be able to use some of those flexible employment opportunities. In fact, most of the women who use food banks actually are supporting children at the same time. Family breakdown poses a great risk of food bank need. Among the women who use food banks who are separated and divorced, 69% have kids.

Kids are now going hungry across the board in one- or two-parent families more frequently than they did before the cuts. About a third of the kids are going hungry at least some of the time; parents go hungry twice as often in order to spare the kids.

We don't think that the answer to this is things like breakfast clubs. Given the amount of money that was cut out of there — and we support breakfast clubs, I might add. Daily Bread itself supplies food to them, so we certainly don't oppose them, but the measures that are needed are significantly more than just a bowl of cereal in the morning. We see that the vast majority of kids don't have access to breakfast clubs, don't have access to schools with them. Nine out of 10 are not able to utilize those programs where kids get fed. The pre-schoolers are not affected by it; they can't use those programs. They're just not a way to ensure that kids grow up happy and healthy, and of course they're not there in the summer.

Hundreds of millions of dollars in support for children have been taken away, and it's been take away not just by the welfare cuts but also in reduced access to child care and drug co-payments and things like that. We'd like to suggest to you that this is perhaps not the best kind of fiscal management because we think we're going to see the effects of poor health and nutrition eventually, particularly for those kids who are growing up poorly nourished. The adults, we are finding, are becoming less employable than they were before the cuts. We have to create some better support systems for poor children.

One of the things we would suggest, for instance, in order to do that is something that happens in New Brunswick and Quebec, where there's a shelter subsidy directed towards those families. People who are way above the welfare shelter limits get a maximum of an extra $90 a month so they don't have to use the food money to pay the rent. We think that's a good investment in our kids. We were sort of interested in the fact that the Northwest Territories actually pays all of a welfare family's rent. It's probably not possible, particularly when we look at the situation in Metro, but I think that's a very sound idea.

We think an emergency food benefit would be a very good idea for poor families with kids, so when they run out of food they can get it. Oftentimes just $25 or $50 would be enough to get them through to the welfare cheque without having to go to a food bank. Frankly, the hunger that exists is there in spite of the fact that food banks are available for them, because a food bank can only supply a two- or three-day supply of food. On average, it does it on a once-a-month kind of basis. That's the maximum that people are able to go to most food banks in Metro and most food banks in the province, and it's quite a rigorous process of interviewing and screening when people go into food banks. I think food banks would like to be able to give more and they'd like to be able to give more often, but we simply haven't had the food to make that possible.

The third thing we would propose, with the new federal benefit for children, is to allow poor families in Ontario to keep their welfare at the current rate, so it would be a top-up for them; in other words, not reduce the welfare cheque by the same amount that they were getting in the federal benefit. There are probably other programmatic responses that are being considered right now, but we have kids who simply can't afford to eat and we have families that can't afford to put food on their table. I think that would be an enhanced provincial benefit.

I want to talk a little bit about employment. We've had twice as many part-time workers using the food bank as was true about 18 months ago or two years ago. The number of full-time-employed people who still need food banks has remained about stable. In spite of the low wages, we know that people would much rather work than be on welfare. We think there are lots of ways that could be encouraged without punitive and costly programs like workfare that seem to be predicated on the belief that people don't want to work, and that's not our experience.

Four out of 10 of the unemployed people who are using food banks, for instance, indicated to us that they were laid off from their previous job; 15% left because of illness, injury or disability. Half of the people who use food banks just began to do so in the last 12 months. Three quarters have only lost their job in the last two years. These are not lazy people. The evidence does not point to people who really are just sitting on welfare

because they want to. We would agree, I'm sure, with everybody on this committee that the best social program is a job. We think so too. We'd rather see people working and not coming to us.

Interestingly, the average age of the head of a household is in the mid to late thirties, so usually people who are in their most productive working years in a different economy or a different employment situation from the one we're in now. Although a poor education increases their risk, there are still very many of them who are very well educated — 16% graduates of colleges and universities — and certainly more than half of them are high school graduates. In some ways they're very impressive. We've noticed over the years that food bank users, we joke and say, "seem to be getting smarter."

There's been a lot of talk about whether welfare is a disincentive to work. We have to say that the sort of retraining programs are only going to work if there are jobs for people to have. You know that; I know that. I'm sure we have complete agreement about that, but there have been some things that have made even the retraining or re-educating more difficult. People who used to receive general welfare and some OSAP have been very hard hit by the changes that allow them only to receive OSAP.

We'd really like to see the province launch a provincial discussion on employment distribution as well. We've got to find some ways to explore finding and creating more jobs for people. We think it's worth a discussion of a four-day week. That could happen through the Employment Standards Act. We at least urge opening the discussion up. We don't know all the answers to that. We think it's an intriguing concept.

Disabled people are particularly threatened, I think, right now. There's talk of a redefinition of disability that would put a lot of permanently unemployable basically on to general welfare rolls. These are people we know very well. Interestingly, they very often work, and work very well, in the food bank, so indeed they can work. We wouldn't deny it. The trouble is they can't work all the time. They very often have mental health problems, sometimes cyclical physical problems. We would like to sit down with the province and discuss some employment opportunities for that segment of the population so they could retain an income level of at least what they have now, and in the long run I suspect we would save some bucks and get them off provincial welfare or even perhaps municipal welfare systems.

1650

We think we could talk about an employment kind of package that looks at OSAP, that looks at new discussions about the hours of work and some pilot programs for flexible employment for disabled people.

Finally, I'd just like to mention welfare benefits. The cut, as I said, has been a main cause of increase in food bank use. Another discussion about allowing municipalities to set their own welfare rates: In a sense we would agree with that; in another sense we would disagree very strongly. What we'd actually like to see is for the provincial government to begin to set some standards of what it actually costs to live in a given community. I think that could be done in consultation with everybody, from the Fraser Institute to us to Stats Canada to the social planning councils. Bring them together, determine what is a standard package that would be reasonable in any community, and by that standard municipalities could perhaps play around with welfare benefits. In some circumstances they'd be higher in some places, like in Metro Toronto where it costs more to live because of rent, and lower in some other communities.

I've still got a little bit of time.

Mr Pouliot: Yes, you do, for questions.

Ms Cox: Yes, for some questions. We're very frightened about the downloading on to Metro because we saw what happened in the last recession: a lot of their welfare benefits — not the actual rates but the welfare benefits — when they were cut, what people got, like ability to move, first and last month's rent, bedding, dental costs. People had to pay for them. They went to food banks. They used the food money to buy those things. It was a major reason why food bank use was so serious during the course of the recession. If municipalities don't have the ability to borrow and if municipalities don't have the flexibility of the province, we're very frightened of what could happen with downloading and feel quite strongly about that.

We would also like this committee to consider some job creation things. Frankly, the feds have dropped the ball on that one. I don't know why the province couldn't do it, why they couldn't do a better job, why they couldn't do something. We must have the resources to take a look at strong job creation programs. I don't mean just tax cuts. I think the tax cut is a bad idea when so many people are going hungry, and I'm not convinced it's going to create employment, but some aggressive ways to talk about doing that.

I'll just repeat that we can't pick up the slack. We can't take any more. The other charities that feed the hungry and take care of the homeless are all in the same situation. We don't want your money. We want to get out of business. Let me just stop there and ask for questions.

The Chair: Thank you very much. That leaves us about three minutes per caucus.

Ms Cox: We were late. We went on five minutes late.

The Chair: I know. We don't go by that clock. We go by my watch here. It was given to me by my children on my 50th birthday. Don't argue with my clock.

Mr Kwinter: Since that time we went to digital watches.

The Chair: Thank you, Mr Kwinter. We'll start a three-minute round with Mr Pouliot.

Mr Pouliot: Thank you, Chair. It's nice to see that the children are recognizing their father, that they recognize their parents.

We live in an intriguing, sometimes bizarre world. We started this morning with the Canadian Bankers Association. I say this with the highest of respect. Part of their excellent brief — they're so well prepared and resourceful, you expect no less — was the taxation rate and policies and they said they were maligned vis-à-vis other industries.

Yet as the day rolls on we have a potpourri of different organizations, different associations, different corporate members. They too lobby. Sometimes it's spoken from

the heart; sometimes it's hard to tell. Most times it's quite well documented. There isn't a member, I trust, when we talked about the food bank — I mean, this is Canada, this is 1997, this is the height of a recovery; things are going well. Mr Martin and Mr Eves tell us money is rolling in. Exports are doing fantastically well. Look at the futures market. We're getting good prices for our commodities.

At the height of this recovery you have as high a number to use the food bank. Of the people who go and use the food bank, over 60% don't have enough, in Canada, in Ontario in 1997, to feed themselves. I know it scares me, really. If nothing else, when all is said and done, something is wrong. It's not only a matter of philosophy; it is that too. Some people will pray for the poor. They won't help them but they'll pray for them, to whom I don't know. Other people will give. Again, when you look at your clientele — it's so easy and so convenient. They're not powerful. When there's a lineup they fight for nothing because they have nothing. Your clientele changes. I'll be selfish and I'll say, "That could be me." The only thing that's separating some people is either a spouse in some cases or a job.

No one is immune. We could be on a waiting list of sorts, and yet to have that number of people for all of us — and I say this regardless of stripe. If it were that easy, we'd just press the switch. No one is callous. There isn't anyone who, when they see somebody, for no other reason than seeing themselves, says, "What gives?"

I don't have an answer to your dilemma. We were the government, we were the third party and we went around, each and every one of us, but suffice it to say that your presentation, the courage you see on a daily basis, is impacting and it is certainly food for thought for each and every one of us.

Ms Cox: I'd just like to say that I don't think there's any — food bank use has risen, I have to say, through the three last governments. It's happened. I don't believe any government has intended to have that happen, I don't believe that for a moment, to create hunger.

I think the reason we do research is to find out what the answers can be. We're very committed to doing whatever we can to enter into whatever dialogues we can to find some solutions to that. We feel that very strongly. But I have to say it's going to cost some money. For this committee I think the important thing is — you know, we're used to going to the social development committee, right? I think we've got to marry the social policy and fiscal policy in such a way that this kind of thing just doesn't happen. They simply can't be separated and taken apart.

The Chair: Mr Brown?

Mr Jim Brown: Mr Hudak.

Mr Hudak: Mr Chair, I have a quick comment then I'll gladly pass the microphone to Mr Brown.

The Chair: You don't have time.

Mr Hudak: I'll be very quick. Thank you both for coming in today. I appreciate your presentation, especially the history of the food bank. I think it's important when you see the trends in food bank usage, if you look back at the Peterson years and some strong economic growth, that the food bank rate eventually doubled. Then I think late in the Peterson term they increased welfare rates and you still saw a substantial increase after that in food bank usage. So you see the trends. I think we all agree that the best way to make your smaller business a bigger business is to create jobs. I think that's what Mr Brown wanted to speak to, Chair, so I'll just pass it over.

Mr Jim Brown: You do a great job, and I agree with you that the federal Liberal budget didn't do very much for job creation. The bankers were in here this morning and I don't think they do very much for job creation. In fact, they probably destroyed more jobs in the last six years.

I'm curious, from your perspective, other than a four-day workweek, do you have any ideas on how this government can create more jobs?

Ms Cox: I think there are a lot of things that can be considered. For one thing there's a disabled community that could be enabled to work and that wants to work. I think that's one kind of thing. Certain kinds of infrastructure programs are perhaps — I have to confess it's probably not a popular word, but I'm a bit of a Keynesian in that respect, although I don't think we've ever looked at a recovery that was quite so jobless as this one, but I think that kind of thing —

1700

Ms Beth Brown: Child care?

Ms Cox: Yes, child care is an example. It not only creates jobs but it enables other people to get them in certain circumstances. I even believe that if people who are on welfare had a greater opportunity to earn more and retain some of their benefits, it would be a much more natural transition for them. But they've got less ability than they used to have to retain their benefits and still work, which is why we have so many more part-time workers in the food banks.

There are a lot of transitional things that don't have to be punitive, that don't take away people's dignity, which I truly believe workfare will do. I think it's costly and misguided. Yes, we could talk about a lot of people and I think it would be a very interesting thing to sit down with some of the people themselves who use food banks and get their ideas because they're good ones.

Mr Kwinter: Thank you very much for profiling the users of the food bank. I can tell you that in conversations I have with people, most people think that users of food banks are street people. They feel these are people who are just out on the streets and they line up like in the old-fashioned soup kitchens to get their food.

When you put out the profile that 16% of them are university graduates, half of them are high school graduates and more than half of them have just come on to the food bank in the last year, that's a rather chilling list of statistics. Do you see that trend continuing? You said you've noticed a bit of a drop just recently, but the kinds of people who are utilizing the food banks, to me anyway, are not what I traditionally thought were the users of food bank facilities.

Ms Cox: Do you want me to talk to that? I haven't let Beth speak at all, have I? I talk too much.

Ms Brown: It's because you're so well-spoken. I guess we've noticed a shift in our demographics. We're surprised to find that the average age is 39. We're disconcerted that there are so many children. Forty-one percent of the

people we serve are children, and yet in the greater Toronto area that is only 22% of the population, so they're almost overrepresented two to one.

If we could look at programs for supporting families, maybe that would ease some of the future trending. I think if unemployment stays at 10%, we're not going to see a decrease in that family component, because they're also the ones who seem to be trending consistently through the welfare system. Until there's some kind of family-based support plan, maybe that is what we should be looking at as a province: really tackling the whole question of child poverty from looking at supporting families at risk and families at the low end of the economic scale. That may be a way to get at that "What does the future hold?"

I think ultimately these people are at the most vulnerable level, but they're also the ones who most desperately want to work, have the most work history. We see work history coming out of people's ears. We're asking people on our survey this year, "How much work history do you have?" I've been looking at the preliminary results and most people are averaging about 10 to 20 years of work experience, so these are not neophytes. They've got some experience under their belt and just would like to find some work. What we could do to keep that group from being in a food bank population would be initiatives like job creation, honest-to-goodness job creation. That's the only thing I can think of.

The Chair: Thank you very much. We appreciate your coming in. I appreciated your statement that all three parties look forward to higher employment rates in Ontario, and we also look forward to your success with less business in the future.

Ms Cox: Thank you very much. In the meantime, don't forget the food drive is coming up. Any fire hall; drop the food.

CANADIAN CHEMICAL PRODUCERS' ASSOCIATION

The Chair: We now have the Canadian Chemical Producers' Association. Mr Paton, welcome to the committee.

Mr Richard Paton: Thank you very much.

The Chair: We have 30 minutes together. If you would like to make a presentation, we will fill any other time with questions. If you would identify yourself for Hansard as you begin and perhaps introduce your associates.

Mr Paton: My name is Richard Paton. I'm the president of the Canadian Chemical Producers' Association. On my right here is Norm Huebel, who is the regional director of our association for Ontario. We have Mike Hyde on my left, who is the director of public affairs at Dow Canada, but who's also the chairman of our business and economics committee for the Ontario region. We've brought together a team today which I hope can provide you with some information on our industry and give you some insights on how you could create some jobs in this province which would help the former presenters solve their problems.

Having witnessed some of your previous presentations, I'll try to keep my remarks as brief as possible so that you can ask some questions.

My opening statement is that Ontario is making progress in working to reduce its deficit and create a business environment that can attract investment and create jobs. However, there still are some policy impediments that are limiting growth and the development of the chemical industry, which as you probably will see from our brief is a significant contributor to jobs in this province.

A little bit about our association: We represent 71 members. We represent the chemical producers. Those are the companies that produce the main chemicals that go into a lot of the products you may use in your house or your car or your carpets or many other processes of manufacturing throughout the province.

We represent 90% of the chemical industry in Canada. Our shipments are $15 billion a year; about 55% are exported. I noticed one of the members mentioning earlier that exports are up. We're a big exporter and we've been exporting more and more. We compete globally every day. I'll come back to this global competition issue because it's very important to how one can increase investment and jobs in the province.

We are a key supplier to sectors in Ontario and we provide the building blocks to many of the industries in Ontario. For example, every car you and I drive has at least $3,000 of products that come from the chemical products we produce — the plastics which make the cars lighter, the fabrics which are on the seats, the rubber that's either on the tires or being used in other parts of the car.

Our industry is also known internationally as being the inventor of what's called responsible care, and responsible care is our environmental management regime where all the CEOs who belong to our association must commit themselves to responsible care. It's a commitment to continuously improve our environmental performance, to be open with the information we have with respect to emissions, to work with communities and the public in terms of managing risks, and to make sure we manage chemicals as responsibly as possible and minimize their impact on the environment and on the population.

You might be interested to know that our manufacturing is concentrated in Ontario: 47% of the manufacturing base of the chemical industry is Ontario-based; Alberta is 30%; Quebec is 18%. However, it is important perhaps also to note that Ontario's position is declining relative to the rest of the country. Alberta has been growing rapidly in this area and Ontario relative to the world chemical industry is not as strong as it was in the past.

In recent years one of the things we have been known for as an association is we undertake full competitive assessments of our industry, where we're positioned vis-à-vis other competing jurisdictions like Texas or Louisiana. We do a kind of scorecard sheet, which probably is one of the more interesting things in your big pile of paper here. Often political leaders, such as yourselves, find this is probably one of the most interesting documents that summarizes the competitiveness factors of our industry.

We do these competitive analyses nationally and then we do them regionally. In the case of Ontario, and I'll return to it in a minute, we've done a complete competitiveness analysis of the industry and where we position ourselves, because if you don't understand who your competitors are, then you're not going to know why the investment is either coming or not coming to your province.

We developed quite sophisticated analytical tools, tax models and studies, and we worked on these studies very cooperatively with various levels of government, and we have, in the case of Ontario, worked quite effectively with Mr Saunderson's ministry on the most recent version of that report.

I'll just talk a little bit about some of these factors that are on this chart. There are a number of key factors that affect our competitiveness. One, as you imagine, is what we call energy feedstocks, the raw material that goes into the products we will use to produce chemical reactions and then produce various other products. We feel Canada is a good place for petrochemical feedstocks. We're competitive on that score. Sarnia, for example, has access to the Cochin pipeline. However, we don't have in Ontario any major advantages on feedstock, such as Alberta at the present time, and it's something that gives us a relatively good position but not a very highly favourable position in terms of competitiveness.

1710

Energy and electricity: I know that's an issue that's quite important in Ontario these days. A lot of our industry has relied very heavily on electricity. For some of our inorganic chemical producers, their electricity costs are as high as 65%. So electricity is extremely important to the competitiveness of our industry.

Ontario has in the past been a good province to locate in, in terms of electricity rates, but is increasingly becoming not such a good province for electricity rates. Other jurisdictions are coming up with much more innovative regimes for deregulating electricity, creating independent transmission systems, allowing people to cogenerate electricity and sell into grids. This is increasingly a problem for our industry and I know the recommendations of the Macdonald committee, to introduce free access to transmission systems, competition and consumer choice, were made to the government, and those are things our industry feels have to be considered seriously in the future to keep us competitive.

The third major factor for us, plant construction costs: If you can imagine, a petrochemical plant can run you easily into a billion dollar expenditure. If you're building that plant and you've got to put out that kind of cash, you're asking yourself the question, does it cost more to build it in Louisiana, Texas, Ontario, Singapore or some other location? Unfortunately, Canada has some locations which are not very good in terms of labour construction costs, and one of them is Ontario.

Ontario's construction labour costs for new projects are 35% above our competition on the US Gulf coast and 25% above those in Alberta. Why is that? That's largely because of the way our labour regime is structured, the way we bargain as province-wide bargaining.

I'll give you a little bit of insight into that. If you're building a petrochemical plant, you're likely to have at least 15 different unions involved in building that plant, and since all of those unions have bargained provincially, they all have hours of work, times for breaks, ways of working that are quite different from each other. Yet unlike a normal situation, they are all working together in a very interdependent way to build that plant. The pipefitters have to work with the other people and whatever. It can put us in a very difficult position in terms of running a project for construction.

When people make the key investment decisions on where to put a plant, whether it's Ontario, Alberta, Louisiana or Texas, and they look at 35% more in construction costs that they've got to put out right off the top and they've got to amortize those costs over the life of the project, they're very reluctant to invest in this province for new construction. That's affecting Sarnia. That's affecting a key chemical area that has been a leading chemical area in this country.

This is a hurdle over which a lot of investments will simply not be able to jump, so that is one of the main messages I have here today.

Taxationwise, Ontario's overall corporate tax burden for the capital-intensive chemical manufacturing industry is competitive, but just barely. We're not advocating changes to corporate taxes. I heard earlier one of the associations argue for changes in the tax system. We're not arguing for changes at this moment. However, one of the things one has to keep in mind is that other jurisdictions are coming out with extremely innovative tax regimes.

For example, in the property tax area, which represents for a capital equipment area a fixed cost that you're going to have to pay whether you're productive or you're not productive or you're making money or you're not making money, places like Texas right now are inventing whole new kinds of property tax regimes based on sales and other kinds of things which are a lot more flexible. Texas seems like a long way away, but Texas is probably one of our major competitive alternative jurisdictions.

Regulatory burden: Ontario's overall regulatory burden is I think generally better compared to the United States because the United States is a highly litigious society. I know Ontario has been making a number of efforts to look at red tape and regulatory burden.

Ontario's Ministry of Environment has looked at some initiatives like recognizing voluntary initiatives, or something that's called Performance Plus which recognizes the kind of efforts we make as an association to voluntarily manage our environmental regime very well. We believe these kinds of regulatory initiatives create a positive environment that is a competitive advantage for us vis-à-vis the United States, because as many of you know, even if the United States wanted to deregulate, given the highly litigious nature of their system and the way their Congress is set up, it's very hard for them to do so. So we have a lot of advantages in our government system to be able to create the right kind of working relationship between government and business that can create both a good environmental regime and a good business regime.

On the environmental area, Ontario has been making some efforts to create some positive changes to the environmental regime. However, I have to mention that you may have noticed that the federal government and Minister Marchi have tabled the Canadian Environmental Protection Act which is aimed at preventing pollution and moving forward on the environment. However, it is a 220-page act full of all kinds of demands and requirements for industry to deal with, and a number of questionable initiatives vis-à-vis harmonization which will not lead to harmonization. Notwithstanding the efforts Ontario is making to streamline regulations, the federal government is coming along and actually making it even more complicated again, and that's something that will ultimately affect our industries and our competitiveness.

Finally, a couple of good news areas: Transportation is a very large competitive advantage for Ontario. There's something like 180 million people within one day's trucking distance of Sarnia, for example. Our transportation system is relatively good, although that's an area you may want to think about investing in a little bit as the infrastructure program rolls out; and also our trade system I think has done us very well in terms of allowing us to export to the United States, which has been a large and important market.

Just to conclude my comments, we acknowledge that efforts to create a positive business climate have been made and are being made by Ontario and we encourage those efforts. However, Ontario is still not attracting its share of new chemical investments, its share of the world investments and even its share of Canadian investments. One of the reasons for that is that certain competitiveness factors have to be addressed. Our electricity costs are too high, so we must move quickly to start introducing more competition, choice and allowing cogeneration facilities that could sell into the networks. Our transportation infrastructure is good, but should be looked at as an area we could build on in the future.

Our outlook for 1997 is good, but we could have a better outlook that would create even more jobs if we were able to deal with some of these competitiveness factors. The absolute number one constraint to more investment in Ontario in the chemical industry — by the way, $1 billion of investment produces at least 45,000 jobs considering the construction and spinoff jobs — is the construction costs which limit the possibility of usually multinational companies deciding to invest in Ontario for their major capital facilities.

Thank you very much and I'll be happy to answer any questions, along with Norm and Mike.

Mr Spina: Gentlemen, good to see you again. I was at the Red Tape Review Commission when you made your presentation, and we appreciate your input here. You excel when you come to make a presentation because you put it in a nutshell and it makes it easy for some of us who have difficulty plowing through pages of copy.

The two areas I was looking at were the disadvantaged areas that you indicate on the chart, which are the domestic economy overall assessment and the infrastructure overall assessment. You indicate there were disadvantages in these two key areas but you're showing some improvement. I guess what I'm trying to get a handle on is, when did these areas begin to really drop in Ontario, how recently, and was it in the last six months, 12 months, eight years, five years, that sort of thing? If you're saying that it's beginning to head in the right direction, are there some specific policies that have been implemented that are helping in that direction and do you have some sort of time frame for turnaround?

1720

Mr Paton: I'll let Mike answer this because he's chairing that business and economics committee and he's got his hands on all that information.

Mr Mike Hyde: I'll see what I can do. As far as timing is concerned, I think Richard has alluded to the fact that Ontario has not gotten its share of the chemical investment that is happening in North America. Our estimate is that there's a potential for $40 billion to be spent in North America in new petrochemical and chemical infrastructure. It is estimated Ontario will get about 1% of that today. We don't think that's a fair share; we need a lot more than that. Back between the years 1974-82, the chemical investment in the province was $3 billion. The following eight years after that, there was only $1 billion invested in this province, so you can see how it started to tail off at that point.

There are a lot of challenges for Ontario. Ontario has one major strength and the major strength is that it's very close to a huge market, the northeastern United States, and the Quebec and Ontario infrastructure here. It has some disadvantages in that it's the end of the pipeline for feedstock, which is very important for us. Energy is extremely important as far as our industry is concerned, and when you see Ontario Hydro building up tremendous debt, when you see it increasing its cost, that not only builds the perception that Ontario is doing something wrong for business to invest but it also builds the perception that Ontario is not open for business. I believe that happened several years ago, Joe.

What is happening now is that with the present government and the approach that the government is taking to regulatory reform, making it simpler, getting rid of ted tape, addressing the WCB and the debt, Ontario Hydro looking at things like the Macdonald committee report and free access to transmission — looking at it; it hasn't happened yet — the trend is and certainly the perception is that Ontario is again open for business, we want some more investment, and that helps our industry as well. We have some very focused things like Richard talked about, construction costs in the area of Sarnia, and we must address those. We must do something with them.

I think we're on our way. We have to keep going further and further. If I may just — Mr Chairman, you can cut me off if I keep going here.

The Chair: I'm not in the habit of cutting off witnesses; I'm ruthless with the committee, though.

Mr Hyde: I just want to add one more thought, Joe, to this. We too want investment in Ontario. I'm very focused on Ontario and I fight within my company competitively to get more investment in Ontario, as do my colleagues. But it's not a simple thing. It's an external infrastructure, like the governance system and the burden and some of the challenges that we have with the

debt load that we've got right now, but it's very internal as well.

My company, like many others, is a large, global, international company, and when we want to put a new piece of investment in a certain business, Ontario, as a major manufacturing base, competes with other areas all around the world. We put together documents like this one which I brought and I thought you might be interested in. It's a document we use internally that addresses the governance in Canada, Ontario, Alberta; the strengths, the weaknesses. We use that for our businesses so that they can take a look, and then we compete. We compete very heavily to try to get the investment in this particular province. So there's an external factor and there's an internal talent of selling as well.

Mr Phillips: I appreciate the presentation. The competitiveness review is about a year old now. Do you have an updated one that's available?

Mr Hyde: We do not, but we plan to update it as soon as the new budget comes down, Gerry.

Mr Paton: It would be fair to say, unless the budget changes a lot of things, I don't think we would see a lot of shift in these dots here.

Mr Phillips: A couple of questions. You indicate here that the preference for R&D at headquarters outweighs other advantages. Could you explain a little bit on that.

Mr Paton: The R&D costs or the R&D —

Mr Phillips: A disadvantage is proximity to headquarters, head office, I guess.

Mr Norm Huebel: I'll be happy to talk to that one. I think what that's really saying is, if you look at the taxation regime, if you look at that sort thing, it's all right. The nebulous thing you're dealing with is the factor that a chief executive officer likes to look out his window and see his research facility. He likes to walk out the door to his research facility. It's an emotional thing; it doesn't make any sense at all but the reality is it's there. If the head office is in the United States, then he preferentially wants to see that research facility sitting down the street.

Mr Paton: Just to add to that, notwithstanding the huge advantage we have — the R&D costs in Canada are, I think, the lowest of any OECD country, so we have significant advantages — but most corporations regard R&D as part of a corporate function. If you have a German corporation, you'll find most of the R&D will be heavily located in Germany. In other words, if we had another 35% advantage on R&D through tax credits, it may not make any difference to location.

Mr Huebel: It's the crown jewel. They want the crown jewels close to home. That's really what it amounts to.

Mr Phillips: You indicate that the labour force is an advantage here.

Mr E.J. Douglas Rollins (Quinte): It's a disadvantage.

Mr Phillips: No, they say it's an advantage. I'm sorry, am I —

Mr Huebel: The labour force is an advantage from the perspective of the training, the education, the productivity. The problem is in the labour cost for construction, which is an entirely different issue.

Mr Phillips: But you indicate here that the labour force is an advantage for your day-to-day operations —

Mr Huebel: That's correct.

Mr Phillips: — on virtually everything, including a significant cost advantage, attitude and that sort of thing, which is interesting.

Mr Paton: In fact, the operating costs of our plants are lower in Canada because of the productivity of our labour force. The trouble is building them.

Mr Phillips: Some 10% to 40% lower, which I'm glad to see. My question then is on the one-time construction costs. If your workforce, with all its productivity, is operating efficiently, what is driving the 35% to 40% higher cost in construction?

Mr Huebel: The province-wide bargaining and the fact that you are unable to have competition with respect to labour wages is really the problem.

There's one other point I'd like to make and I don't think it's been made. You look at the score card. The score card offers a whole bunch of factors. They are not equally weighted, obviously. The reality is there is are number of factors that stand out and if they are not right, you can have all the other ones right and it won't make a difference.

Mr Phillips: You said the number one issue is construction cost.

Mr Huebel: That's correct.

Mr Phillips: I'm trying to find out why the construction costs are 35% to 40% higher and your labour costs are 10% to 40% lower. That's what I'm trying to get at.

Mr Paton: As Norm is saying, you've got provincially bargained wage rates and conditions of work. Nova went through this experience recently, built an expansion in Sarnia, and Bayer also built an expansion. Bayer tried to get a negotiated arrangement with all the unions on a site basis. I forget what the number is. They got eight of the 10 unions or nine of the 11 — eight of the 10 unions. The two biggest didn't agree and that was the end of the agreement.

In any other jurisdiction — in fact, I think another option to that would be if 75% of the unions agreed to a site agreement, then the others would go to arbitration. That would be a more reasonable way to do that. Or if you wanted to go even more extreme, you could said that you could have competition. In some jurisdictions — not something that I'm sure some parties here would support — but in other jurisdictions in the United States, that's what they've done, and that's what we've got to deal with.

1730

Right now we're held hostage. In the case of this Bayer plant, we were held completely hostage to the fact that two unions were unable or unwilling to work on a site deal, even if there are about 4,000 workers in the Sarnia area who are unemployed. We think a plant would take up a considerable amount of that unemployment. But even if that union wanted to, it would also have a problem, because it's part of a provincial structure and may not be able to even have its own flexibility. So you have some unions among those 10 who wanted to do this and they were unable to do it.

The whole thing is a very serious impediment to a fairly rational, even a negotiated kind of solution that would have worked out a better arrangement for how to build that plant, and a least-cost arrangement. Change like that would make a big difference to investment — a big difference. We estimate in the $1-billion to $2-billion category at least in a period of two or three years.

Mr Huebel: The thing I'd like to just add too: The reason for that is when you calculate a return on investment for a facility, the time value of money makes the upfront money very, very important. If the construction cost, which is front-end money, is greater in Ontario than in other jurisdictions, then your return on investment is dead before you even start. That's the problem. That's why it's so critical that construction cost is righted, because it's upfront money.

Mr Pouliot: I too am puzzled, not so much in terms of operating and construction. I know that multitrade timing is everything. It connects. It's meshed and everything is dependent. Yet I too looked yesteryear at Olympia and York, at the Tridels and the Cadillac Fairviews of this world and they too deal — not as complex, but in some cases complex nevertheless — with multitrade. That's the nature of their business. When I price equivalent material and factor in the season, their cost per square foot, I fail to appreciate a discrepancy, a difference of some 35%.

You've mentioned twice Alabama. It would be too easy to say thank God for Missouri and Mississippi, where costs are always cheaper and red tape is nonexistent, but don't rejoice too quickly because to build a chemical plant near one of those national parks is becoming increasingly challenging. The future can last a long, long time if you're near the Grand Canyon.

I find your presentation very much balanced, and came away with a sentiment that when all is said and done, location is very important to and from market. Transportation: You scored it high, relatively. Just-in-time delivery: We're doing well there. Regulations and red tape: In some cases it's better here, you've mentioned. Taxes: You recommend no changes. You can live with the corporate responsibility vis-à-vis taxes. Labour: When you throw everything in, you seem to be satisfied, and you rely on your workforce to produce the good time.

One question I have is — well, a comment, I should say, vis-à-vis Ontario Hydro. They're not in the mood of loading the grid. Engineers like to build things, especially after the brownouts of some years back. Ontario Hydro tells us they're 10% to 15% overcapacitated, so they're not likely to welcome anybody and put the watt on the grid. If they do so, you won't get too much per kilowatt.

Let's say that factor would remain true throughout. There's been a freeze, after all, for the last three years and one for the next two. You're export-driven. People tell us how much of your production capacity is exported and goes elsewhere. What's one penny, one cent on the Canadian dollar? You see, with this government, gentlemen, the Canadian dollar will appreciate. I wouldn't be surprised if within relatively short order we will achieve par, because people will notice that we have such a driving economy and it will boost our currency. People will want to invest. Is that not the way the global economy runs? If you have parity with the Canadian dollar, how would that do with your industry?

Interjection.

Mr Pouliot: It's been reported too, Mr Rollins.

Mr Paton: So the question is on the Canadian dollar?

Mr Pouliot: Yes.

Mr Paton: We've done a whole range of assessments of exchange rates, from 65 cents to 85 cents. We haven't imagined a parity scenario yet. I don't know, maybe that's in the cards, but let's say it's out there in the future a little bit. That would change by 21%. That means we would have to have a cost advantage of —

Mr Huebel: He said 80 cents.

Mr Paton: Oh, at 80 cents, so 15%. We're benefiting significantly right now by the dollar's cost, so we would have to increase our efficiency or our competitiveness factor by another 15%.

Mr Pouliot: Unlike your production costs, I take it this would be an ongoing cost for whatever the currency market would last, obviously; daily. When I factor things in, if I project, the construction cost is a one-shot deal. Once it's done, it's done, right? But I would have to look at many factors, notwithstanding that if you live on export, you can be negatively impacted by export. That's a factor, is it not? Like you have forestry — because you're resource-based as well to a large extent — mining, farming, anyone who exports.

The Chair: I'm afraid I'm going to have to bring this conversation to an end, Mr Pouliot. I appreciate the Canadian Chemical Producers' Association attending today. Mr Paton and gentlemen, we appreciate your input. It's quite fascinating. Thank you very much.

CREDIT UNION CENTRAL OF ONTARIO

The Chair: Our next deputant is the Credit Union Central of Ontario, Mr Guss. Welcome to the standing committee on finance and economic affairs. We look forward to your presentation. We will follow on with some questions, time permitting. Would you start by introducing your associate.

Mr Jonathan Guss: I'm Jonathan Guss. I'm president and CEO of Credit Union Central. This is Lorrie McKee, our director of public affairs. We're very pleased to be here this afternoon and appreciate the opportunity to be here representing our 371 member credit unions.

I want to provide a quick overview of the system. A few of you have quite a bit of experience with it. Mr Kwinter, I know, and Mr Pouliot, at least, and others as well I'm sure are familiar with it through past associations.

Central is both a central banker for the system and an association for the system. We have two roles. We have 93% of Ontario's credit unions as our members and our members employ about 4,000 people. If you're wondering what that's in the order of, it's the same as Labatt. They have about 4,000 people as well. So we've got a lot of employees.

We have $8.6 billion in assets. The system as a whole, including credit unions and caisses populaires, is $13.5 billion in Ontario, money raised in Ontario and invested in Ontario, and we're very proud of that. There are over

1.7 million Ontarians who are members and use our services.

We have a proud record in Ontario. No member of an Ontario credit union has ever lost a cent, and although we had a troubled time in the 1980s, the government never had to step in to bail us out. They did provide a guarantee, no different than the guarantee provided by the federal government through the CDIC to the banks and trusts, but you never had to step in and give a penny of support to the system.

We've survived many tests of our strength and many tests of wealth and we've emerged through a very troubled 1980s as the only real alternative to the banks. It's a bold claim. We only have 6% of the market, but when you look at what's happening in the rest of the financial services industry, we really have survived and are flourishing.

The banks are much bigger and they have the lion's share of the brokerage business, the insurance business and the trust companies. The trust companies, those that are still standing, really seem to be trying to look like banks. The insurance companies have not stood still but their real pressure has been into the wealth management and financial planning area for their clients. The foreign banks, another battleground for financial institutions here, are not really competition to us. They will try to cream the midsize commercial market, so they're really competing with the banks.

1740

Having said all that, we are not immune to the many pressures in the market. One of the forward pressures, one of the good pressures, is the pressure to provide a broad array of services. I should point out, first of all, that we do own major shares in two insurance companies, Cumis and the Co-operators. You're very familiar with the Co-operators, I'm sure; it's the second-largest casualty company in the country. We also have a trust company, we have a brokerage firm now and we have a mutual fund company. We are there in terms of readying ourselves to provide all those products. Also, the pressure for personal service, both in-branch and through computers, is on us. But what we're doing is what we've always done well, and that's putting our members' interests first. We are member-owned and member-controlled, so we're going to maintain that interest up front.

We have a proud history also of innovative products. Most people don't know that we were the first with daily interest accounts, the first interactive ATMs, the first with weekly-payment mortgages, all that kind of stuff, so I'm always happy to talk about those things.

For the future, we've got the rights to the VanCity home banking system, VanCity credit union, the largest in the country. We've made that available through our credit unions in Ontario. We're part of the Mondex cash card project. I'm sure you saw some media about it last week. The Guelph pilot was launched by CIBC, Royal and us. We're happy to be in on that project at the ground floor.

Personal lending of course remains our bread and butter. It's the heart of what we do, providing people with the money for their houses, their consumer products, all the things that are manufactured in Ontario, and also for savings and pensions for retiring.

We don't do some of the things our competitors do. When you want a small loan now at a bank, they get you to put it on your credit card, and those have high rates. When people come in with high credit card balances, we still do what's best for the member, and that is, give them a small loan at a reasonable consumer rate. We don't charge them the 16%.

That leads right into our role in the communities. We're very attached to the communities, we're based in the communities, we raise our funds there, we reinvest there. When things get hot in another city or another province, of course our credit unions don't take your money and invest it somewhere else; they stay right there and reinvest there. That's where their livelihood is. In a few minutes, I'm going to get back to the efforts of Mr Spina in that regard.

We think we're more community oriented than the banks, and in fact it's been proven for us. The CFIB, the Canadian Federation of Independent Business, does an annual review of their 60,000 members to see how they feel about their financial institutions. For every year I've been in the system, and that's 16 years now, every year they've done that survey we have come out on top, head and shoulders ahead of the banks, when it comes to small business satisfaction with their financial institution.

There are a few issues I want to address, having gotten that background out of the way. The first issue is the state of the economy. Many of you know a credit union manager. These are people who run $100-million and $200-million companies in your ridings, in your districts; some of them run $5-million organizations. They're small beside banks, but a $5-million organization in some of our towns in Ontario is a big organization, and they have a real feel for the economy. Coming into this meeting, we surveyed them and tried to find out how they felt about the economy, where things are warm, where things are cold, where they are flat, where they are developing quickly. I'm proud to say I got a pretty good reading.

The general point I think I should make has to do with consumer uncertainty. I know we like to think that consumer confidence is rising, but our view from these people is that there's still a lot of uncertainty, some of it driven by job uncertainty. Even though the major cuts seem to have been done, people still feel very nervous that they could lose their jobs; they don't understand why, and therefore they're always nervous about it.

So our reading is that there's still, unfortunately, a low level of consumer confidence. That's important because consumer confidence, everybody says, is what's going to drive the next uplift for the economy. People remain risk-averse more so than any time in the past, and it's probably driven by this.

For our part, we've had a rough run. I don't want to say that we aren't profitable. We've remained very profitable but not nearly as profitable as the banks, because we've kept our service fees in check. At the same time, our credit unions are telling us they can't shoulder any more tax burden, they can't shoulder the burden of any kind of capital tax. I think it's important for me to table that with you.

We think that whatever the government can do in its budget to repair consumer confidence is extremely important, and that's where the real emphasis should be placed, fostering economic growth and job creation across all segments of society.

I have a point about credit union competitiveness, and it sits right on our deposit insurer. CDIC insures bank and trust deposits; our deposits are protected by DICO, the Deposit Insurance Corp of Ontario. The main point to make here is that our premiums are higher. The CDIC premiums the banks pay, our competitors pay, are $1.67 per $1,000 of assets. We pay $2.10 per $1,000 of assets. That disadvantage is multiplied by the fact that we pay insurance on all deposits, not just insured deposits. We pay insurance on 100% of our deposits. We pay on the $60,000 that is published as covered. We pay on anything over $60,000. If a municipality uses a credit union and puts in $1 million or $2 million, we have to pay deposit insurance at $2.10 per thousand on the whole deposit. We pay on US deposits, which aren't insured, and we pay on deposits with maturities over five years, which aren't insured. It places an additional burden on us. As I said, the CDIC doesn't charge on any of these, only on the $60,000 insured.

To add insult to injury, we're not permitted to publicize that we pay on 100% and that in practice we have 100% coverage. I should emphasize a point here, and that is that the whole fund is funded by credit unions, just as the CDIC fund is funded by the banks. It's not government money we're talking about.

If we were to pay the same premium rate as the banks and calculate the premium using the same formula as the banks, the deposit insurance costs would be reduced by approximately 33%. One of our largest members states that their insurance costs would be reduced by 33%; that's $500,000. In the case of that particular credit union, that's half their net earnings. So they would double their profit, what they could return to the community and the membership or return to capital and reserves, if it were dealt with differently.

More to the point, we'd be happy to pay for 100% if we could talk about it, if we were permitted to advertise it or publicize it. That's very important to us as an alternative. It's a double-edged inequity, as you've heard, and competing in today's competitive marketplace, where margins are paper thin — there's really no margin on mortgages; financial institutions now make their money on fees and dividends from the securities firms they own — we would be in much better shape.

We've got the confidence of the members to put in more than $60,000, but we'd very much like to state our position, which is either to pay premium rates equivalent to those paid by our competitors or be given the right to publicize the 100% coverage. It's a serious issue for us, and we need attention to it now.

1750

The third issue I want to raise has to do with the locked-in retirement income funds. It's what people do with their money when they've been in a registered pension plan. I'm sure you're all familiar with it somewhere in your own life. You've been in a registered pension plan. As you know, when you retire it goes into a locked-in income fund. We'd like to change the rules of those. I've covered it in our written brief so I'm not going to dwell on it now, but I just need to hammer a couple of facts.

One is, in Alberta and Saskatchewan they've already seen the light. They've changed the rules. If we can offer these, there will be more competition for insurance companies, which have a monopoly on this market because of the way it's structured. It's very important that the rule be loosened up so that people over a certain age have more choice. In giving them more choice, you'll enable them to get more income for their retirement and you'll enable other financial institutions to get into the market of providing that income.

The fourth point has to do with small business and capital. I'm glad to see Mr Spina here. I truly appreciate the announcement that was made by Mr Sampson and Mr Spina earlier in the week. I guess it was last Friday; it's been a quick week. We're very happy with the approach that's been taken. You've heard what I said about credit unions in the community. We raise funds in the community and we keep them there. The approach that's been taken with this initiative is terrific. It's very community-oriented and we're pleased with that. It fits with our philosophy. It fits with the way we operate and with our principles, so it's practical as well as principled and philosophically sound.

We are going to respond in more detail in writing. We appreciate that invitation. We look forward to a meeting with you on that, Mr Chairman, and we look forward to helping people provide jobs in the community. Those are the jobs that last, those small business jobs that have the commitment of local people.

There are two points I'd like to make on it now. One has to do with the creation of talent pools. If you can find a way to build into it, a means of having people around who have a lot of experience who can advise small borrowers, that's what they need. When they're getting a start, it's not enough to come up with a plan. The banks and the credit unions always say: "Well, you need a plan. We need to see your projections. We need to see all that." None of us takes enough time to give them the advice and the mentoring that they need, and if we can build in an incentive for that, it's very important.

Secondly, we need mechanisms so that people who are creating these pools can access the existing labour-sponsored venture capital funds. That's a very important point that's been raised and we've got to find a way to do it. Those pools have lots of money and they're having trouble finding a home for it. The chairman of my board is on the board of one of those and he says it's terrific but they're looking for homes for money. If we can bring some of that over, very helpful.

So we will put in a comprehensive submission. We're looking forward to doing that.

In closing, I'll recap my four key points. One is general lack of consumer confidence. We have to do anything we can to make Ontarians feel secure, build back consumer confidence. Second, the deposit insurance premiums: We need action now. Premium rates must be equivalent to those paid by our competitors. If we continue to pay on 100% of deposits, and we're surpris-

ingly willing to, we want to be able to publicize that. Third point: amendments to Ontario pension legislation to change the rules on the locked-in RIF to make sure there are more options available for our parents and for us in a few years, all too few I'm afraid. Finally, encourage government to go ahead with the plans on community development. I think it's the right approach.

I want to thank you for your attention. I've talked as fast as I can. I know I haven't left much time for questions, but I'd be glad to handle a few.

Mr Kwinter: Thank you very much for your presentation. It's like déjà vu. As you know, I used to regulate the credit unions and was very much involved with them. I just want to clarify a couple of things. Your concern about being able to advertise 100% deposit insurance: Right now, up to $60,000 is 100% insured, but you are forced under the regulations to insure everything?

Mr Guss: That's right.

Mr Kwinter: So you want to be able to advertise that everything above $60,000 is also 100% insured?

Mr Guss: That's right. In the three prairies they actually advertise it. They have the same kind of coverage. They have some wonderful ads, and in the middle they just slip in "and our deposits are 100% insured."

Mr Pouliot: Every dollar?

Mr Guss: Yes. In BC it's $100,000. So we'd like to do one or the other.

Mr Kwinter: The other thing I'd like to talk about is the differential in the insurance rate. I assume there's a new acronym. It used to be OSDIC. I guess they've changed the name to whatever it is. But the main reason for the differential was that there was a different requirement for reserves, and credit unions have a very small threshold of reserves and banks have a very large one, so that really reflected the premium rate. I notice that the reserves have been increased, but how do they compare to the chartered banks?

Mr Guss: I can't remember exactly when you were minister, Mr Kwinter, but the reserves are well over 4.65% on average in our part of the system, and the requirement at this point is 4.6%. I think that's what it just went to as of January 1. Our part of the system alone is at 4.65%. If you take the system as a whole, including non-affiliated credit unions and caisses populaires, I think it's at 4.88%. The bank requirement is 5%.

In the early 1980s the banks only had 2%, but the predecessor to OSFI imposed the 5% rule in those early years and the banks moved up very quickly by going to the public markets. But we didn't have access to the public markets, so we've had to build that capital by retained earnings, by earning money and putting it aside, earning money and putting it aside. It slowed our overall growth tremendously, but we've gotten back to the levels I just told you and we're ahead of the legislation, so we're very pleased about that. We think we've shown a maturity in the last five to 10 years that perhaps wasn't there before that we've made those targets and we're very proud of it.

Mr Pouliot: A renewed pleasure. Thank you kindly. Every presentation you privilege us with a surprise. I want to turn your attention on your presentation, page 8, one of your four recommendations. It deals with the locked-in retirement fund at age 80. In other words, whichever is left in the locked-in is to be converted under present statutes to an annuity.

Mr Guss: That's right.

Mr Pouliot: Being aware that you have both a minimum and a maximum when it comes to LIF, whereas when it comes to an ordinary retirement savings account you have only a minimum and you have the same beneficiary policies, while I appreciate your boldness, your courage, if I was to stray from the premise that after all it's my money, both the employer's and the employee's contribution, it's done by contractual arrangement, it is in most cases defined, it stops being defined once it switches to a locked-in, why should it be locked in in the first place?

The government could get its money faster if I had no maximum. Under RIF I don't have any such a thing, but under LIF I have such a thing. Why burden me in having the life insurance companies hope I could get just past 80 and having the beneficiary hope I don't get to 80? Why not just make sure that I get the transfer, tax-free, tax-sheltered, into an RRSP which is self-directed or not and take it from there? That's what I do with my contribution to an RRSP. Why should the employer's portion dictate the philosophy when it comes to their and my RRSP by way of partnership?

1800

I also have one small comment because we dealt — I said it was a renewed pleasure of course — on the portion that Mr Kwinter dwelt on, on the rates themselves. I've taken from your answer to Mr Kwinter that you're not opposed at all to the $60,000 minimum protection?

Mr Guss: No, it's a complicated factor because in effect the way our deposit protection agency works, people get 100% protection. They step in to stabilize the situation. They seldom if ever close it up and pay off the deposit, so the effect is 100% coverage. In effect, we favour 100% coverage. We're paying for it. Why not publicize it?

Mr Pouliot: I'm a miner by trade so these complexities don't come easily. I must work hard at these things, therefore I need your help. Would I be right in saying that one day I read that you were wrongly pooled by this? Because I talked to les caisses populaires and they told me, if my memory serves me correctly — maybe I go too far sometimes, I rely too much on it, but you'll correct me — if we weren't pooled with the credit union, me too, our rates would be lower too. Were they fair in their comment?

Mr Guss: That may have been true one day, but I remind you that —

Mr Pouliot: So there was a risk factor involved? That's why you're paying the higher premium.

Mr Guss: Yes. But the biggest loss in the system of course was the caisses populaires, so you do have to be careful when you're listening as well as when you're speaking. They've had their problems as well.

Mr Pouliot: But knowing the caisses populaires, they were doing the preaching. I can assure you I was listening.

Mr Guss: But they're doing very well now, I'm glad to say.

The Chair: Thank you very much. We go to the government side. With some trepidation we go to Mr Brown.

Mr Jim Brown: Trepidation? The Canadian Bankers Association were in this morning and being a former small business person, I'm not in love with them and I don't know — I tried to conceal that this morning. I did a good job.

I'm on the committee with Joe Spina, access to capital, and I believe that small- and medium-sized enterprises are the job generators and I think they have been severely damaged over the last six years by the overly conservative, only six chartered banks. Of course we're trying to open that up and increase the competition for sources of supply to small business, even at any rates of interest because it's just getting the money.

I've had some communities come to me, like the Armenian community. They want to set up a credit union. They have small business people in their community they want to put the money out to, employ people, which is the business we're in. They came to me because they had great trouble forming a credit union. I've been phoning all the bureaucracies and getting my fair share of voice mail, but one of the things that came home to me was that in the last 15 years there has only been one new credit union.

What have we done in terms of regulations and red tape and all of the apparatus to prevent credit unions from blossoming and using money that's got into the community, plowed back in the community to employ people in that community? What can we do to get the credit union moving?

Mr Pouliot: We'll cross the floor at the same time. Is that okay?

Mr Rollins: You would probably turn around at the back.

Mr Guss: I appreciate the question. We've referred to some of the difficulties in the past and I don't want to dwell on them at all, but because of that, the rules had to become very strict. If you look at the banking legislation federally, you need at least $10 million in capital to start a bank. You need at least $5 million to start a trust company. While that's what it says in the act, the regulators insist on much more than that to start either one of those.

A credit union can actually start with about 10 people and a few thousand dollars, so you can start one but you have to be sure it's going to be viable. There are real demands in the marketplace on these organizations that require a lot of capital, so we encourage them to start. We worked with Mariposa, helped get it started. What we tend to do if a community comes to us is find an existing credit union and get them to start a special branch. Now, for the Armenian community — is that what you mentioned?

Mr Jim Brown: Yes.

Mr Guss: They don't want to join the Ukrainians, of course. So maybe they need their own credit union.

Mr Jim Brown: But you're going to make some more proposals to the access to capital committee. Will you put in that proposal things that we can do to make it easier for credit unions to flourish and to become independent and to help the communities create jobs? Are you going to tell us how to do that?

Mr Guss: We're going to tell you what kinds of incentives, what kinds of programs will work to entice credit unions and other financial institutions to make the pools of money available. We're going to show you, I hope, how we can facilitate the creation of those pools in communities, whether the community is the Armenian community or a physical, locational community.

Mr Jim Brown: Are you going to make it easier?

Mr Guss: But it's never going to be easy to start a credit union. I don't want to mislead you on that. The rules are going to be strict and enforced with great discipline because of the problems we have seen so recently. So I can't promise you that. I'm sorry.

Mr Jim Brown: Well, I guess we'll be talking more and more.

The Chair: We thank you for appearing here and Ms McKee for appearing for the committee. We appreciate your input and your representation to us.

Mr Guss: Thank you for the opportunity.

The Chair: Before we start switching seats, there being no further business to bring before the committee, we stand adjourned until next Wednesday at 10 o'clock.

The committee adjourned at 1806.

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CONTENTS

Wednesday 20 February 1997

ISSN 1180-4386

Legislative Assembly
of Ontario

First Session, 36th Parliament

Official Report of Debates (Hansard)

Wednesday 26 February 1997

Standing committee on finance and economic affairs

Pre-budget consultations

Chair: Ted Chudleigh
Clerk: Franco Carrozza

Assemblée législative
de l'Ontario

Première session, 36e législature

Journal des débats (Hansard)

Mercredi 26 février 1997

Comité permanent des finances et des affaires économiques

Consultations prébudgétaires

Président : Ted Chudleigh
Greffier : Franco Carrozza

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday 26 February 1997

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Mercredi 26 février 1997

The committee met at 1003 in committee room 1.

PRE-BUDGET CONSULTATIONS

The Chair (Mr Ted Chudleigh): Could we call the meeting to order.

ONTARIO PUBLIC SERVICE EMPLOYEES UNION

The Chair: We welcome the Ontario Public Service Employees Union, Mr Bill Kuehnbaum and Mr Jim Onyschuk. Am I close?

Mr Jim Onyschuk: It sounds like "Honest Ed," except no relation.

The Chair: With the last name of Chudleigh, I'm sensitive about pronouncing last names correctly. Welcome to the committee, gentlemen. We have a half-hour to spend together. If you'd like to make a presentation, we could fill the remaining time with questions. Please proceed.

Mr Bill Kuehnbaum: Thank you, Mr Chair. I am Bill Kuehnbaum. I'm the first vice-president and treasurer of the Ontario Public Service Employees Union. This is Jim Onyschuk. He's a researcher from OPSEU's research department. On behalf of OPSEU, we're pleased to make this submission to the standing committee regarding the 1997-98 budget for the province.

I imagine most of you know who OPSEU is, but for the record, we represent about 100,000 workers in the Ontario public service, in the broader public sector and across the province in the community college system. Within this framework, we represent a broad range of workers: those people who inspect highways; who look after our public parks; who provide emergency care for medical patients in ambulances, seniors in long-term-care facilities, people with mental illnesses, children being protected from abuse and developmentally handicapped adults.

Our members ensure that Ontario has clean water and is protected from corporate polluters of our land, air and waterways. They work in not-for-profit correctional facilities, teach young adults and adults in community colleges. Some of our members work in universities. We work in courts, make sure that property taxes are assessed properly and collected. We deliver social services across the province, work for human rights. We provide support and resources to cultural groups, tourism operators, housing providers and tenants across the province.

The perspective we bring to the standing committee's work is that of the front line. We are the ones who deliver government programs. We believe that this makes us uniquely qualified to comment on the delivery of public services and issues related to their delivery. We're not the only ones who think that.

OPSEU has the distinction of being the only union mentioned by name in the Common Sense Revolution document, which states the following: "The Ontario Public Service Employees Union has developed several commonsense proposals for ending waste and duplication. We will work with government employees, listening to their ideas and eliciting their help in taking action." We are waiting for the consultation that was promised. Maybe this is part of it.

It should be no surprise to anyone that OPSEU disagrees not only with the specific measures but also with the overall approach taken by the government on budgetary matters. We know the approach of this government will increase economic and social inequality in Ontario. It's based on extremely short-term thinking. We know it will reduce public accountability over government expenditures, that it will damage the economic and social infrastructure of Ontario and that it will not achieve its stated goal of job creation. We believe this spring's budget calls for a new direction to begin correcting some of the more obvious distortions that the Common Sense Revolution is causing.

In the weeks ahead, OPSEU will be joining with other unions, the Ontario Federation of Labour, grass-roots seniors', students', women's and anti-poverty groups, with children's services organizations, teachers and a number of other groups that are within the Ontario Alternative Budget Working Group to present an alternative budget for Ontario. The alternative budget will take a fundamentally different approach from that of the current Ontario government, addressing the issues of deficit reduction, job creation and fair taxation head on.

The process of budget-making is about making choices. Most of Ontario history is about Ontarians choosing to build a public infrastructure: a framework of laws and regulations, provincial roads, schools, hospitals, parks, courts and correctional facilities. These services have evolved under the leadership of several political parties and have been gradually refined since before Confederation.

Public services have helped make Ontario what it is today: a place that people want to move to. We've attracted people from around the world. We've developed our natural resources and we've built great cities. Toronto was designated recently as the best major city in the world to live in by Fortune magazine.

Our network of roads, social services, education and health care form the base on which Ontario's private sector has thrived. One of your earlier delegations, representing road builders, noted that three quarters of

our exports enter the US via public roadways. We know that public health insurance keeps health care costs low for companies like General Motors, relative to our competitors. We know that our post-secondary education system develops the brain power that has turned Ottawa into a booming centre for the computer software industry. We know that the public sector has a role to play in our current and future financial health and that financial health can pay for accessible public services for everyone.

But now, coming up on two years into this government's mandate, these pivotal elements of our society are under the deepest threat they have ever faced. Seniors, people with disabilities and family caregivers are extremely anxious about the availability and security of health care and the cost of user fees and privatized services. With post-secondary education funding drastically cut and tuition fees skyrocketing, parents are deeply worried about their children's future. It is time for a change of direction in this spring's budget.

1010

Before I go further, I'd just like to state as simply as possible the difference between the Ontario government's economic analysis and OPSEU's.

The government's official version goes something like this: Cutting public services will reduce the cost of government. Cheaper government allows government to reduce taxes. Reducing taxes stimulates economic growth. Stimulating economic growth creates jobs. Creating jobs will allow the government to eliminate the deficit and pay off the debt.

OPSEU's version is different. It goes like this: Money spent on public services provides more economic stimulus than money given to private citizens in the form of a tax cut. The reason for that is that all public service dollars are spent, and almost all are spent in Ontario. Money received by private citizens through tax cuts may be saved, it may used to pay down debt or it may be invested outside of Ontario. Therefore, cutting public services to pay for a tax cut reduces the amount of money in circulation in Ontario, and this creates an economic drag, reducing job creation.

We know from studies done on the federal debt situation that the three primary causes of government debt are high unemployment, high interest rates and a shrinking tax base. That's why we say in our next point that when unemployment remains high, deficits and debt cannot be eliminated. When governments reduce revenues and unemployment remains high, deficits will continue to grow even more. Deficits will grow as long as the real interest rate on public debt is greater than the rate of growth in the economy.

That's the short form of the story.

The government claims that it will accomplish the economic miracle of job creation, deficit reduction and tax cuts all at once, and we say they're nuts.

Which of these two theories is right or most likely to produce the desired results? The government's theory has been tried a couple of times before. It is basically a variation of the economic policies of the Reagan era in the United States. These are the policies that came to be known as "voodoo economics," and they're the policies that resulted in a massive increase in the federal debt in the United States. Over the period that Reagan practised this same kind of economic theory, the debt of the federal government in the United States quadrupled.

You don't have to go back to the 1980s in America to see the impact of these policies on jobs. Despite promises that the Common Sense Revolution would create 145,000 jobs a year in Ontario, job growth figures are now down for the first time in three years. Our current unemployment rate is over 9%, up from 8.7% a year ago, and over 500,000 people in Ontario are looking for a job. Thousands of young people despair of ever finding full-time employment. The increase in the number of jobs in 1996 was 35,000. Ontario was the only province to produce fewer jobs this year than last.

The Common Sense Revolution is not creating jobs, and without jobs it cannot pay down the debt unless interest rates are very, very, very low.

Obviously a person has to wonder why the government would bring forward the kind of policies that are in the Common Sense Revolution when they have been tried before and failed. The reason, we believe, is that the goal is not job creation or even deficit reduction. The real goal is to increase the role of the private sector in the economy and to increase the wealth and power of the people who are already wealthy and powerful. The most obvious example of this is when you look at who really benefits from the tax cuts. The major beneficiaries of reduced tax rates are people who earn far more than most of the members of OPSEU.

Further, cutting public services and cutting the taxes that feed those public services accomplishes the same thing. When you cut $1.3 billion out of Ontario's hospitals, some people are going to put pressure on the government to allow increased private medical care. Forget about the fact that Canada's public health care system is very cost-effective. It insures everyone in the country for only three quarters of the rate of the American system, and the American system has 35 million people who are not covered by health insurance.

We believe that the privatization of public services is more important to this government than job creation, more important than paying down the deficit, more important even than tax cuts. There is no evidence that privatization will or will not save taxpayers money. There is no evidence that taxpayers get better value for money through privatization.

It is certain that well-off investors increase their income through privatization. It is certain that public accountability is reduced. It's certain that the wages of ordinary working people go down as a result of privatization. It's certain that public services become accessible to fewer and fewer people through privatization. It is certain that overall economic equality in society is reduced through privatization. When the government talks about bringing the profit motive into things like control over our drinking water, people should be very concerned.

Since we are talking here about the government spending less money and since privatization is not likely to save money, I want to talk a little bit about the latest effort to cut money out of public services. I think the government is beginning to realize the difficulty of

eliminating the deficit through the dubious savings of privatization and service elimination while at the same time reducing the revenue stream by cutting taxes. That is why they are now looking for another $2 billion or $3 billion to cut out of public spending. That is money that will come right out of the economy, resulting in further economic drag. Jobs will not be created.

The latest budget-slashing exercise is called "disentanglement." It seems pretty bizarre. To get their $2 billion or $3 billion, about $1 billion is going to come out of municipalities. Then once you've got control of the school system, we think you're going to go after the teachers for another $1 billion. This will of course cause a major disruption some time in 1998, affecting every school-aged child and every parent with school-aged children in the province.

For municipalities saddled with $6.5 billion worth of new services to deliver, the result will be public service cuts, increased user fees and, yes, even tax increases through increases in property taxes.

What we've got here is $12 billion being thrown up in the air, hoping that no one notices only $10 billion lands on the ground, and that's called the "wash." It's a pretty transparent deception.

Now, is the chaos really worth it? At the end of disentanglement, we will get a net economic drag, because the drag from the service cuts will exceed the stimulus from the tax cuts. As far as job creation is concerned, which is the only thing that will pay off the deficit without demolishing public services, this part of the Conservative government's agenda will be completely futile.

The net economic benefit to Ontario will be zero at best. The only people who say that public services will be improved by this are members of the government caucus. In fact, public services will be devastated. If all the government is trying to accomplish with this year's budget is no net job growth, no improvement in public services and a completely questionable impact on the deficit, there's a much simpler way to go about all this without anywhere near the same amount of hassle.

This is our recommendation:

First of all, forget about the tax cut. Secondly, forget about disentanglement, which is causing you a headache everywhere in the province, and take the summer off. When you get back in the fall, lobby the hell out of the federal government to do everything it can to lower interest rates. We know that they're lower than they have been, but they could still go lower. Lower interest rates not only reduce the deficit, they'll also stimulate the economy and reduce loan payments for homeowners and other borrowers and homeowners will really thank you for this. When you go to borrow money, borrow as much of it as you can from Ontarians so that the interest payments stay here and the economy grows some more.

One last word: The government says it wants to attract investment to Ontario. The best way to do this is to create a stable environment for business, filled with healthy, well-educated workers, a clean natural environment and a strong public infrastructure. The opposite choice is to continue on the road we are on now, the road that makes Ontario look less and less like a modern democracy and more and more like dirt-road Alabama. Thank you.

The Chair: Thank you very much. That leaves us about four minutes per caucus and we'll start with the official opposition.

Mr Gerry Phillips (Scarborough-Agincourt): I guess just a couple of questions on your presentation. I do think you have your finger on what we regard as, if not the most important, probably one of the top two or three most important, and that is the employment situation. I think you point out an interesting statistic, that Ontario is the only province that created fewer jobs in 1996 than it did in 1995. You also point out among young people how serious it is. We've just seen the largest unemployment rate among young people that I've seen in Ontario ever, at least as far back as I can see the records.

1020

The question is on levels of services, because you're in a unique position, I think, to give us some advice on what's actually happening to levels of service in the province. The thing that I worry about is that we're moving to so much "community-based" care, community-based services that are difficult for us to measure. It's services in a different way and services often in the home. Can you give us any advice on what's actually happening to Ontario people who are looking to the government, and then in turn often your membership providing those services?

Mr Kuehnbaum: The most obvious place where we see this — we see services declining everywhere, but I think you're talking about the service that the government provides for care of people who can't care for themselves.

Mr Phillips: Don't limit yourself just to that, but I'm thinking that's among the more difficult to measure.

Mr Kuehnbaum: It's hard to put statistics on it, but what we see is that the policy statements are, "Let's get out of the big institutions and get people back into the communities." OPSEU has never resisted that concept, but what we invariably see with the closure announcements which mean that people are going to disappear from the big institutions is that you cannot find the community-based organizations that are taking them up. We have case study after case study of people leaving institutions and there's no place really for them to go.

There are two places where they end up. One is on the street, like you see in Metro and Parkdale. You can go there any time of the day or night and those are people who used to be in institutions at one time. The other place they go is back to their parents. Often these people are adults now, and as their parents age, it's an impossible situation to care for their kids, but the kids end up going home and somehow they survive.

There's lots of different ways to deliver public service, and we support changes in the delivery of public service, but what we see are announcements of closures of public service or elimination of public service and no announcement about what's going to take its place. The family support program is a good example: "Let's really change how that's delivered," and some of those changes might have been a good idea, but that part of it wasn't put in place.

Mr Phillips: Can I ask a question on the size of the Ontario "bureaucracy," as they say? The government during the campaign in their Common Sense Revolution said they would trim the direct provincial workforce to the equivalent of what it was in 1985. We found last year when we looked at the numbers that the day they took office, the public service was the same size as it was in 1985. Those were the numbers. I think the committee members will remember that the staff produced those numbers that the public service was the same size in 1995 as it was in 1985. Then they're going to, I gather, trim 12,000 more or something like that, to reduce it to 12,000 fewer than it was in 1985.

Have you got the up-to-date numbers on the size of the Ontario public service now?

Mr Kuehnbaum: I don't remember the numbers from 1985, so I can't give you that.

Mr Phillips: I do.

Mr Kuehnbaum: I know that from our membership, the decline in the last year and a bit — this is our direct public service membership — is about 8,000.

The Chair: If we could move to the third party.

Mr Gilles Pouliot (Lake Nipigon): Thank you and good morning. I too have some compassion and sympathy vis-à-vis your presentation. I have a few brief questions. I need your help.

Take or leave $100 million or $200 million — I'm referring to the four instalments regarding the tax cut — our calculation is that, grosso modo, when everything is in place, you would be looking at lost revenues of approximately $5.4 billion per year. We know that the PIT on the revenue side generates about $15 billion a year, so you would in essence take 30% out of that $15 billion.

We're also very painfully aware, and we have been reminded, that when the new government took office on June 8, 1995, they were burdened. They had to face a debt of some $11 billion.

As economists, are you of the impression that if you were to apply the $5.4 billion or a portion of that $5.4 billion directly against the debt, it would be more beneficial than hoping that you would recover through trickle-down rhetoric — simply put, do you believe they're on the hook for a 30% tax cut? Revenues are always the glass jaw of every government's economic argument. What would you do if you were the government on the eve of the budget?

Mr Kuehnbaum: We're convinced we're not going to deflect the government from diminishing public services. We've got lots of arguments why they shouldn't do that. We're not going to succeed in that, so the gist of this presentation is: Go ahead and do that. We know you're going to do that. But for heaven's sake, get out of the tax cut business, because that works directly contrary to all of the other objectives which are stated. It's not going to provide the kind of stimulus — if deficit reduction is what you need to do before we can get back thinking about delivering public service, let's attack the deficit; it's a lot better, and reducing your revenue stream doesn't get the deficit down.

Mr Pouliot: You've placed an emphasis on alternate services being in place before downsizing or re-engineering of the civil service. I remember vividly, and I'm not asking that question, but by way of comment, that we had a red book that said they would cut 12,000. Then we had a blue book — a curse on both their houses, I guess — that said they would up the ante by 1,000, gutting the civil service by 13,000.

We had the social contract. I guess time does that, but when I look at their intent and their actions, I see the social contract had a human dimension attached to it. Do you feel that by the normal rate of attrition — do you intend to come up with an alternative proposal? Again, what would you do? In your preamble, the tone is that things change. We're in a constant flux of changes; things cannot remain the same. You're the front-liners. Your members are doing the work. How would you do it cheaper and as efficiently without privatizing? What's your answer to a mixed bag? What would you do?

Mr Kuehnbaum: There's no question in fact that in the Common — I shouldn't say that. I don't remember in the Common Sense Resolution.

I know from listening to all-candidates' meetings in Sudbury, this question was raised by Mr Zanibbi, who was the Conservative candidate, and he talked about big downsizing in the public service by attrition. We thought that those numbers could be reached by attrition, especially when we see the last collective agreement had some decent stuff in it about early retirement incentives, and those work. There is no question that the number of direct public servants could have been knocked off by the thousands without lots of layoffs or elimination of services.

We've found we have to acknowledge there has been a huge inefficiency in the delivery of services. I work in a community college, and we have fewer staff and are delivering approximately the same number of programs. So efficiency goes up right away, and that efficiency was created by people departing of their own free will through incentives but the same number of programs being delivered. That is a way to increase the efficiency of delivery of service in a very rapid fashion.

The Chair: Thank you very much. If we could move to the government side.

Ms Isabel Bassett (St Andrew-St Patrick): Thank you very much for your presentation. Two things that you mention in your report I want to pick up on.

One is the tax cuts. You implied that it was going to the rich, and I just want to make clear that 91% of the tax cuts go to people earning a combined income of $60,000 or less and that they can expect a cut in the income tax rate. Secondly, Patti Croft, who presented here last week, said that one way — the only way, in fact — to get consumers spending again is to put more money back in their pockets, and that's through a tax cut and reducing the level of taxation. I wanted to point that out.

1030

Secondly, jobs: In terms of jobs, what we are doing is restoring business confidence. Anywhere you go, statistics and reports show that we are considered as a place where confidence is good. Businesses are moving in here. In 1996, Ontario created 90,000 private sector jobs, 56% of the national total, and Ontario accounted for 82% of the

net new retail and wholesale trade jobs here in Canada, 73% of the net new manufacturing jobs in Canada. We are beginning to move; the ball is beginning to move. Are you totally against businesses moving in here because of tax incentives? They are the ones that are going to give the jobs. I just don't see where you're coming from when we see this starting to move.

Mr Kuehnbaum: I'm assuming you are making your argument that businesses want to move here because the government is getting its fiscal house in order and all that kind of business.

Ms Bassett: Yes, good business.

Mr Kuehnbaum: Right. But what I'm saying is, if that's your objective, getting the fiscal house in order, you can't suck and blow at the same time. If fiscal responsibility of the government is what you think makes businesses move here, and I'm not exactly sure that it is, but if you think that, then abandoning your tax cut will make them think even more highly of the government for attacking its deficit problem, because it won't be sucking and blowing at the same time.

Mr Jim Brown (Scarborough West): We agree. I agree with you that interest rates are very, very important for job creation. You're recommending that we take the summer off and lobby the federal government to do everything to lower interest rates, but since June 1995, interest rates have come down significantly, and June 1995 is when we got elected. Interest rates, I'm sure you'll agree, are a reflection of the confidence level in the Canadian economy, in the value of the dollar, and since Ontario comprises probably the most major portion of the Canadian economy, would you not agree that a lot of what we've done has caused the interest rates to fall? If you don't agree with that, what would you say did cause interest rates to fall?

The second question is, to lobby the federal government I guess to get their house in order — is that what you're inferring?

Mr Kuehnbaum: The federal government has a much bigger impact, more leverage on the level of interest rates, than you folks do, and they can do it in a bunch of different ways. But interest rates are driven by the demand for money, and if you folks go through with your tax cut, you're going to have to borrow money in order to finance that. That means there is more demand for money, you have increased the demand by however many billion dollars, and that tends to make interest rates go up as the demand for money goes up, so that financing tax cuts by deficit financing works exactly against low interest rates.

Mr Jim Brown: But wouldn't you agree — it seems that you know about the market — that the market discounts the future and the market is a very, very all-knowing system, and wouldn't you agree therefore that the rates that we're presently enjoying discounted the future and have in fact taken into consideration whatever future we would have in terms of borrowing?

Mr Kuehnbaum: To tell you the truth, I don't have a clue what goes through the mind of the individual or individuals who set those rates. Sure, they make some speculation about the future. If you want to drive them even lower, prove that they're wrong about how you're going to finance your tax cuts. If you were to say, "No, we're not going to go to the market for billions to finance the tax cut," I think there would be an adjustment in the interest rates downward even more.

Mr Jim Brown: I think you don't understand how the market discounts the future.

The Chair: Thank you very much. We appreciate you coming in to make your presentation for us today.

CANADIAN FEDERATION OF INDEPENDENT BUSINESS

The Chair: Our next presentation is from the Canadian Federation of Independent Business, Catherine Swift and Judith Andrew. Welcome to the committee. We have 30 minutes together, and if you would like to start with your report, we will use up any remaining time in questions.

Ms Catherine Swift: Thank you. I'm Catherine Swift, president of the Canadian Federation of Independent Business, and I have with me Judith Andrew, our executive director of provincial policy with special responsibility for Ontario. Another one of our colleagues, Rita McCague, is here with us today to help us out.

We thought we'd have a slide presentation. The slides are contained in the back of the brief, just for your information. The kits that we distributed include naturally our brief here today that we'll breeze through as quickly as we can. It's pretty full of stuff, so we are going to have to go through and very briefly touch on most of the important elements, but we will unfortunately probably have to leave the odd thing out just in the interests of time.

We have in the kit, as you'll note, a very brief piece based on one of our surveys looking at the small business outlook for this year, 1997. We'll be touching on that briefly, as well as a copy of a very substantive study we did late last year on a national basis called On Hire Ground, which has breakouts for the provinces, so you can see how Ontario stacks up, as well as some coloured charts that pertain to the results in that study.

Thank you very much for the opportunity to appear before you today. As always, we appreciate these opportunities. As the data have shown not only in Ontario but nationally, but notably in Ontario, over the last 20 or 25 years small business does seem to be creating the lion's share of net new employment. A lot of what we have to say today will have to do with jobs and various aspects of that. Some of this initial data is coming out of our job study.

This first chart that you see here: There's been a lot of discussion often that in the small business sector there's a lot of turbulence in terms of job creation and job destruction, if you will, in that sector. This is true, it's not anything that we've ever denied, but we think it's worth pointing out that on a net basis we certainly see a lot more on the plus side of the ledger than the negative and that that turbulence indeed is perhaps not as orderly as we all might like things to be but it is very much a necessary facet of any dynamic economy.

When you look at other economies around the world that don't tend to have this kind of turbulence, what they tend to have is very stagnating economies. The European

economies are classic examples of that right now, where they've been so burdened by taxation, regulation, legislation for decades that they have stagnated and they're not having that job creation.

So the small business sector does tend to be a dynamic sector and you do see job losses. As you can see here, there are proportions of things like layoffs, voluntary job leavers and so on, but you'll also notice that the new hires and the recalls — this particular chart, for instance, pertains to the 1996 period, but the proportions there are much higher on the plus side. Just to explain those strange little dots, we compared our own data from our own survey to StatsCan data for the economy. The trend lines are virtually the same but you'll see it's a little out of whack on the zero to four, the very smallest of firms. That's because in our membership we actually overrepresent slightly larger small firms, if you see what I mean, the ones that are, say, in the five to 20 or the 20 to 49 employee groups, and slightly underrepresent the zero to four. So that's the reason for those differences there.

In the next slide, of course we've heard a lot about youth unemployment. The previous presenters were mentioning youth unemployment. What we found in the study that we found particularly intriguing, given that we have such a high rate of youth unemployment right now, is that smaller firms, and notably young firms — and this particular chart pertains to younger firms that have been in business here one year, two to four years and so on — disproportionately employ younger people; in other words, higher than the proportion in the overall economy. In the overall economy, for example, there's 14.9% you see off to the right, and you see all of these firms — basically, young firms hire young people, so naturally, any policies that encourage the creation and the growth of new businesses are going to have a positive impact on youth unemployment.

1040

The next slide deals with the range of occupations. There have often been comments that these are all in certain sectors and what not, but what we found in our study was that it was very much reflective of hiring in the economy overall: executive management about 5%, which pretty much reflects the economy, and so on down the list. There certainly is a diversity of employment opportunities out there in the small business sector.

It's a little bit complicated with all those little blocks there, but you can see there that in terms of wages, the majority of employment during that period happened in wage ranges that were — you see the largest columns in the $10- to $20-an-hour range and significant chunks in the over-$20-an-hour range as well. In other words, we certainly don't have a lot of minimum-wage jobs exclusively being created out there. In fact, it pretty much tracks the economy.

Overall, these data from the survey basically reflected what I guess we knew in terms of small business job creation being so very significant, but it gave a little more detail around things like, where was the hiring happening, what kind of wages were being paid and so on.

These are StatsCan data, the overall improvement in employment levels over December 1995 to 1996. What you see here is overall private sector job creation of about 90,000, and of course the government employees, the public sector — that would be all levels of government lumped in together here — knocking 20,000 off that. In other words, you've got a net of around 70,000 jobs created. Of course, that big chunk of self-employed is certainly worth noting because that's where we've seen the lion's share of growth in the last year or so.

In terms of our own forecast, we do a forecast every year among our members late in the year, and the 1997 forecast is quite optimistic. As you can see, 1996 wasn't a terrible year but it was spotty. The first half of the year was kind of slow and then it did pick up steam towards the end. By the way, I went back and checked our forecast for 1996 just out of curiosity to see how accurate we were, and our numbers were pretty bang-on with what actually happened. I think they do have a pretty good grip about what they see for their own business and their own local economy, so aggregated they give a pretty good picture of what's going to be happening across the board.

Here we see them notably more optimistic than they were for 1996, with a very small proportion of our members actually thinking that 1997 is going to be weaker than 1996. Our Ontario members, by the way, just to give a national comparison, were among the most optimistic in Canada. I think that reflects what we've been seeing also in some surveys that have come out lately on business confidence levels in Ontario. Our data very much support that.

Our members typically are cock-eyed optimists. I think you probably have to be if you're in small business in this country, and they do reflect that. As a result, their expectations for their own business typically exceed or are more optimistic than those for their economy, and this chart reflects that.

In terms of hiring plans, the last chart looks at where they expect to be hiring, whether it's full-time or part-time. As you can see, there's an increase in that full-time element this year. We're seeing in that StatsCan data too, that part-time jobs typically take place more in the earlier parts of a period of economic growth and upturn in the business cycle and those turn into full-time jobs. We have been seeing this not only in our own experience but also in the StatsCan labour force data. That's very much a trend. There's been a lot of concern over part-time growth, seemingly thinking that most of the job creation happening out there is part-time, but the data belie that contention. In fact, we see the part-time jobs turning into full-time jobs across the board.

I'd like to turn it over to Judith now to talk about some of our policy issues.

Ms Judith Andrew: Good morning. I guess I'm going to confuse everyone, hopefully not my slide-turner, by mixing up the slides a little. I'd like to turn to figure 10 if you're following along in the brief. This is a tracking of small business high-priority issues over the last while since 1994, and it's for the same period. It basically covers the last six months of each of the years involved, with the tabulation done in January. We're finding that these priority issues don't much change over the years, although the developments in each of them tend to affect

the percentage of members, indicating that it's a high-priority concern for them.

What you'll find, of course, with the aberration of last year, where debt and deficit took the lead, is that now we've returned to the usual situation where total tax burden is the perennial number one concern of the small business sector. It's the cumulative burden of all the taxes and all the levies and fees which is so detrimental to small business and which robs them of their earnings and in some cases their capital.

I'll ask for figure 11 now. No taxes are ever much liked, but this is the lineup of the taxes that are of most concern to our members. You can see that workers' compensation premiums head the pack and then down the line property tax, business tax, employer health tax and so forth. It's quite significant, that the first few taxes that are of most concern to the small and medium-sized business sector are in fact profit-insensitive taxes. These are the taxes that are levied relentlessly, regardless of whether you make a penny of profit.

We have a little cartoon here. The humorous side of this is that essentially all three levels of government have small business surrounded and they're just waiting for the disposable income to be thrown out.

Back to figure 11: I'm not going to say very much about workers' compensation other than that we are supportive of the reforms coming forward from the Ministry of Labour. Our members would also go one step further in terms of reforming the workers' compensation system, and that is to move that system to a competitive system. They believe that a monopoly, government-run system is really out of touch with what's happening everywhere. They would indeed like to see private insurance options for workers' compensation insurance, and that's one area that we will press for in the upcoming hearings on Bill 99.

On the employer health payroll tax, our members are very appreciative of the relief that was announced in the 1996 Ontario budget. We're calling on about 1,500 Ontario members a week at their places of business and we're getting very positive feedback on that measure. That measure actually showed up in our surveys even before it began to be felt in January 1997, and of course our members are looking forward to the phase-in of the first $400,000 EHT exemption happening over the next two years.

1050

What's distressing is that as soon as some tax room is vacated, other levels of government tend to move in with new taxes to take up that tax room. That's certainly happening right now with regard to payroll taxes. We have Canada pension plan reform and some pretty significant increases coming down the pike. At the same time, the employment insurance system federally is overfunded in the sense that it's building up some pretty significant surpluses in that account in the order of $5 billion a year. We felt, and we certainly argued before the federal government, that more substantive EI reductions would be in order to counter what was happening on the CPP side. That didn't happen and we have this outcome where we have a counterproductive approach between levels of government in terms of lowering tax burden.

We call on the Ontario government to continue working with both the federal and local levels of government to have tax and other policies that are supportive of the job creators.

On the local property tax side, these are big, big issues, obviously ones that are being dealt with in the property tax reform that's to happen this spring. It's probably worth noting that Ontario is the world champion of property taxation. In terms of total property and wealth taxes, we extract something in the order of 5% of gross domestic product. This is the highest in Canada and well above the level of any of the developed countries in the world.

Apart from our taxes being high by world standards, there are also significant problems in how they're distributed, with huge distortions between classes. The issue of most concern for us is that businesses are shouldering, in the case of all Ontario, double the property taxes that residents are paying for properties of the same value. In Metro Toronto, it's even more acute; businesses are shouldering triple the taxes that residents are paying for properties of the same value.

Our recommendation in this area is that the reforms must indeed provide a guarantee of no more taxes on the business property tax base. We're worried about some of the announcements that have been made so far in terms of giving municipalities the power to use variable mill rates and so forth, and we will be making a major issue of this because this is a very big concern for small and medium-sized business.

Figure 9 comes from the survey that Catherine discussed in detail earlier, the Hard Facts survey. These are the conditions necessary for small business to hire more employees in 1997, beyond what their projections were. The number one condition is increased customer demand; 78% of our members said increased demand would indeed help them hire more employees. I think the other issue is less variability in sales; another 20% said that.

This is one of numerous pieces of data, and they're all described in the brief, that lend support to the personal income tax cuts. Our recommendation is to continue with the personal income tax cuts, maybe even consider accelerating them, given the consumption-dampening measures coming from the federal government. We certainly advocate a balanced approach of fiscal restraint and tax reduction stimulus to encourage job creation in the private sector.

The corporate income tax issue — I'll get you to turn back to the tax table — is a big one for about a third of our members. It's injurious to them. There is increasing concern by size of firm and so forth. When you look at the nationwide comparison of the small business corporate income tax rate, you see that Ontario now has the highest rate among all the provinces. At 9.5% it's only half a point shy of being double that of the lowest provinces.

Our recommendation in this area is to lower the small business corporate income tax rate by at least one point to improve our competitiveness with other provinces. We would also suggest that the whole CIT rate structure be reviewed for competitiveness on all fronts. We would also call upon Ontario to help press Ottawa to increase

the small business deduction towards $400,000, as this deduction hasn't been adjusted in some time and has been greatly eroded by inflation.

The next few pages cover all manner of taxes, with recommendations on corporate minimum tax, sales tax, gasoline and diesel fuel taxes, corporate capital tax and so forth. In the interest of time today, we can't cover those, but they are important ones.

Turning now to deficit and debt reduction — back to figure 10 in terms of the priorities — this is the number two priority; 74% of our members say it's a concern for them. It subsided by a few percentage points this year, but still, three quarters of our members continue to place high priority on governments stringently controlling their spending to arrest the growth of debt and return the province to sanity.

It's pretty interesting and maybe I will draw your attention to figure 12. Ontario does get somewhat higher marks than the other levels of government in terms of their progress on controlling deficits and debts. In terms of an overall figure, 78% of the Ontario respondents say they're pleased with the Ontario government's progress. None of the other governments come close to that.

I think that's a pretty good snapshot in time in terms of how our members were feeling about mid-year last year. I think a pretty good start has been made at paring down the deficit but it's certainly premature to declare victory on the fiscal front, so we have some strong recommendations to continue balancing the provincial budget and to reinforce the need to do that with some balanced-budget legislation.

We've covered issues in the brief about unfair competition and re-engineering of government services. There are some recommendations about curtailing unfair competition in the brief.

I'd now like to turn to the third-ranked problem for small and medium-sized business: government regulation and paper burden. We have a little cartoon on this one. I know Jim Brown will appreciate this. The Red Tape Review Commission was launched last year and in our view did an excellent job at starting the process to help revise the regulations. Small business feels they're devoting so much of their time, effort and money to looking after government paperwork and complying with government rules, and really little too time at growing the business. It's very important that the government press forward with this. The report of the Red Tape Review Commission had some excellent recommendations which we support, and we've endorsed those recommendations in this brief.

The final issue I'd like to touch on is the availability of financing. This one tends to show up down the list of our members' priorities. At the present time, about 29% of our members put priority on the issue, and this is somewhat improved from about 36% over the same period in 1996. One might be inclined to believe that financing issues aren't acute or that in any case it's heading in the right direction, and that would be a wrong-headed way to look at it. For small businesses, these are particularly high numbers. These are up in the 30% range; that concern is at a very high plateau and it seems to be stubbornly there. During the 1980s, the number was only about 15% of smaller firms raising concerns about access to capital.

The other point about this is that capital access tends to be a live-or-die issue. For small firms, if they can't get capital their lifeblood is cut off. On the other hand, if the government passes another deleterious regulation, that's not going to drive anybody out of business although it's a big concern, but capital is a major issue. We were pleased when the committee on small business access to capital, headed by Rob Sampson and Joe Spina, released their report recently. There is some pretty thoroughgoing analysis in that report, and we agree with most of what's in there.

1100

Our recommendation in the financing area takes us back to the tax burden issue. It's important for the tax burden to be reduced to preserve the retained earnings as a key way of financing growth. There are some other recommendations in our brief dealing with labour-sponsored venture capital and other tax-supported venture capital approaches. These might have merit but they have to be proceeded with cautiously. This is an area that can very easily go the wrong way in terms of governments not getting value for money for the moneys they put into this kind of thing.

In conclusion, small business in Ontario is appreciative of the government's attention to creating a hospitable environment for them to grow and create jobs. The key to unleashing the job creation potential of our members obviously lies in reducing total tax burden, especially those taxes which are profit-insensitive, and squarely in that category are the payroll and property taxes, so you'll continue hearing from us on those.

We'll be happy to take your questions.

The Chair: Thank you very much. That leaves us with about one minute per caucus for questions.

Mr Pouliot: I wish we had more time. It has become a tradition where your organization pretty well sets the standard. We are pleased with the statistics. Your track record is accurate and you tend to give us some food for thought indeed. Philosophically, you will understand and appreciate that in a democracy there are groups that we can appreciate just as much by way of philosophy. Simply put, some of us attract another manner of humanity; those are the people we attract.

What is your forecast in terms of inflation for 1997?

Ms Swift: We don't see any evidence that inflation is going to be increasing above the current very modest levels. We seem to still have a lot of excess capacity, not only in terms of the obvious labour market, because we see that unemployment rate way higher than anybody wants it to be, but also we see it in our businesses too. We have to note that this last recession, particularly for Ontario businesses, was longer and tougher than even the early 1980s one. As a result there's still that capacity that shouldn't drive the inflation numbers.

Mr Tim Hudak (Niagara South): Thanks once more for an outstanding presentation. I always enjoy your being before this committee.

It's interesting. Throughout these two weeks of presentations we hear from economists maybe a bit on the left who believe in more of a government role, a spending

role, and we'll hear more shortly; and then we hear from economists from the right who talk about the stimulus effect of small business and tax cuts. But what you bring to the table are the hard facts, as your survey says, what the ramifications are for small businesses.

I'm going to ask a question and try to make it very clear. The two competing paradigms you have are the Ontario government, which believes in cutting taxes along with deficit reduction to stimulate business, and then you have the federal Liberal government, which will just reduce the deficit. Sort of pulling the strings of our members across the floor, they believe in the same thing: "We'll leave tax cuts; we won't necessarily have tax cuts for some time." For job creation for small and medium-sized businesses, which paradigm would you recommend this committee to follow?

Ms Swift: Our members have been pretty clear because we have surveyed them endlessly on this subject. We were quite critical of the federal budget last week, the reason being — we feel deficit reduction is important, no question; you can't mortgage your future forever, and we've done it a lot across this country. But we need some offsetting stimulus. We've seen downsizing in the public sector; we've seen large corporate downsizing. We see unfulfilled potential among our members to create jobs, so we feel there is scope for balancing fiscal prudence, if you will, with tax relief. We Canadians, not just small business but all Canadians, I think, know we're over-taxed. Look around the world: High-tax economies are high-unemployment economies; lower-tax economies are high-employment economies.

We don't think it's rocket science. Look at history in Canada in the last 25 to 30 years. We've seen our tax burden in all elements creeping up quite dramatically. In the last 15 to 20 years, we've seen our so-called structural, if you want to call it that, rate of unemployment — I don't believe it is the structural rate of unemployment, but we've seen the rate of unemployment that it seems to get tougher to get below also creeping up.

Our membership isn't partisan. I think it's worth saying that. One can easily say, "This is Conservative or Liberal or whatever," but our membership actually covers a wide spectrum of political whatever. We are a non-partisan organization. But their views over the years have been very consistent and they favour something that contains both the public sector spending element, within prudent grounds, and there is a role for government as well, so it's not really a reactionary sort of thing. But the tax burden has to be relieved if we want to see jobs.

Mr Phillips: Thank you very much for another fine presentation. We'll have a chance to talk about the tax thing when we talk to the property tax legislation, but my real interest is in jobs. A lot of people are being asked to make major, major personal sacrifices to fund the tax cut. This is supposed to be the job creating engine; this is supposed to unleash 145,000 jobs a year over five years.

In the last five months we've lost 37,000 jobs in Ontario. We had 35,000 full-time jobs created in 1996, the worst year we've had in five years for full-time jobs in Ontario. The banks came in and said we will be lucky over the next two years to see 115,000 jobs created. My question to your organization is, what is your expectation about job growth over the next couple of years in Ontario and what sort of GDP growth do we have to have to hit the 145,000 jobs a year?

Ms Swift: We don't think any one measure is a panacea for job creation. The job haemorrhaging we've seen, notably in the early 1990s, came from a number of different causes, and a number of different things are going to have to happen to reverse that trend in an enduring kind of way. We have always focused on particular areas of tax cuts because that's what our members tell us they feel is most important to them and deserves focus. These fixed taxes that Judith was talking about that have no relation to whether you're making any money are certainly very worrisome. On the consumer demand side, we think putting money into everybody's hands to some extent will have a positive effect there.

I don't have a nice economic model that can link specific job creation to, say, a GDP number or whatever, but our members do. There are data contained in the report, just for what it's worth, on their projections of job creation. They're also basing it on the conditions that prevailed at the time, and if something else happens, naturally that could increase, decrease or whatever as the case may be.

But overall in terms of our members' numbers and the numbers we've seen come out of, say, some of the Ontario projections — barring a shocking political development, which can always happen, such as some Quebec referendum again that puts the deep freeze on everything — we see the targets as attainable. Our members are more optimistic now than they've been in years.

Mr Phillips: Which targets are attainable?

Ms Swift: The targets the current Ontario government has set for job —

Mr Pouliot: So 725,000 jobs over four years.

Ms Andrew: If you look at page 2 of our brief, you can see the forecast, based on our members' responses, is for 74,000 jobs from existing businesses to be created in 1997; that's just for this year. New businesses aren't in that number and new businesses tend to match roughly the same number of jobs, so that would be up in the 140,000 range in terms of what's coming from the small business sector. That's our number.

One issue that is a big concern for us is the fact that whenever there is some tax relief — on January 1, we started to see the EHT tax relief, but at the same time we got front-end loading of the employment insurance premiums, and those premiums of course are way too high; they should be reduced to reflect the fact of the large surpluses in the employment insurance account. We also got the CPP increases, which are retroactive. The EI decrease isn't going to happen until next year. We've got the problem of personal income tax creep happening. So the effort that was made to give relief on EHT has been more than taken up. People's paycheques were actually diminished January 1.

The Chair: Thank you very much. Once again we appreciate your presentation to the committee. Time is always too short. We appreciate your coming in.

Mr Phillips: Did most of your members pass on the employer health tax savings to their employees?

Ms Swift: We have some survey data on that, for what it's worth.

Mr Phillips: That would be interesting.

1110

INFORMETRICA

The Chair: We now welcome Informetrica as an expert witness. Welcome back to the committee, Mr McCracken. We have an hour together. If you would like to make a presentation, we can fill up the remaining time with questions.

Mr Mike McCracken: Thank you very much, Mr Chairman. I'd like to make a few comments, although I would like to leave some adequate time for questions, because I think that's the real purpose of this exercise: for me to learn from your questions what really matters.

What I would like to do is make a few comments on the economic outlook and some considerations to keep in mind as you go through the task of deliberating on the pre-budget period. I'd like to step back a second and talk to you a little about some structural changes occurring in the Canadian economy at the present time that in my view are quite important in terms of the way in which the economy functions compared to what we thought it was even as recently as five years ago.

One of the outstanding characteristics is that we are now living in a much more open economy, both here in Ontario and nationally. Imports are roughly 40% of GDP, gross domestic product, and exports are of a similar nature. What this means is a number of things. One implication is that we, as you have seen, focus a lot of attention on the international competitiveness of Canada and on its current account balance and on stabilizing the foreign debt ratios, which have certainly been part of the federal strategy for some time. It also means that in a more open economy if we spend a dollar on consumption a substantial amount of that leaks out of the economy through imports, roughly that 40%. That's up from about 25% in the early 1980s and 30% in the late 1980s, early 1990s. It is a much more dampened economy, whatever actions one takes in government, whether that be tax cuts or expenditure hikes. The induced effects tend to be more modest.

There has also been a series of changes in the unemployment insurance system or so-called employment insurance system. "Reform" is the way it has been described; some people on the other end of the stick may use other terms. Essentially we have gone from a system in which roughly 100% of those unemployed participated and received some benefit during their period of unemployment to a system where now less than 50% of the people receive some benefit, the benefit they receive is less than it was before in terms of the share of their income prior to becoming unemployed, and it is for a shorter period of time. The system continues to be reformed; there will be increasing restraints over the coming years in that system.

So again the behaviour of the economy when there is an adverse shock is one in which that shock reverberates through the economy much more. The automatic stabilizer effect of the unemployment insurance system has been greatly weakened in the last five or six years.

We've also gone through so-called social assistance reform in a number of provinces, this one included. The net consequence so far has been substantially smaller payments to those who are on social assistance, again taking away the so-called automatic stabilizer effect associated with that particular program.

There has also been a major shift that you're no doubt aware of in the relationships between federal and provincial governments. The federal government historically was the entity that was supposed to sort of take the hits and provide that automatic stabilizer, to do something about employment and unemployment. More recently, however, it has shifted the burden increasingly on to the provinces, first with the cap on CAP and other restrictions in the late 1980s and early 1990s on the established program financing activities in CAP; and more recently with the Canada health and social transfer being turned into a fixed block grant and, as you are no doubt painfully aware, substantially reduced in size.

Again, the effect of this, aside from the difficulties it creates from a budgeting viewpoint and the actual dollar downloading that's occurring, is that it also removes the cyclical sensitivity of the federal government to increases in social assistance and pushes those down to the province. You might say: "So what? We're tough. We can handle that down here." But you just heard a few moments ago a comment suggesting that someone wants balanced-budget legislation at the provincial level. If it ever was appropriate, I would suggest you give careful thought before you jump on that bandwagon, now that you have and face an increased set of responsibilities in a cyclical downturn compared to what you had previously. You will find that your situation can now deteriorate much more quickly than it has historically and you will not necessarily want to be in a position where you're forced by a piece of legislation to make that situation much worse by your own actions.

Other characteristics of the economy are that we now have a much more risk-averse banking system. They've had their experiences in the 1980s of substantial losses both in some industries in Canada and abroad. They have taken a series of steps in their internal management that in my view have led them to be much more sophisticated in their risk management, but as a consequence you have a banking system which will not suffer large losses any more. They will move quickly to cut off loans in any industry that in their view is under threat. The consequence of that is that again you've lost another cushion in the system, of your large financial enterprises. The automatic stabilizer they provided in the past has been reduced substantially.

Other changes just to note in passing: The focus has been to reduce universal programs and move to targeted programs. There's nothing wrong with that, necessarily, but again a consequence of that is to put more variability of incomes into the system.

Indeed, we don't know yet the full dimensions of the health care changes that are occurring, but it will be interesting to keep track of that. I think it would be very useful to also broaden one's view on the home care side to include, in any estimates of what you're doing on the health side, the degree to which the time and hours of

people who are spending their own time in giving care is going up substantially in that environment. In other words, the offloading that's occurring there may be much less visible than other forms but just as damaging to the social fabric.

There are some proposals going the other way. There is a proposal, as you know, to include pharmaceuticals as part of the public health care. That would be a move back towards universality in that particular area.

Those structural changes that are happening are also taking place in a world economy in which the three driving forces are a continuation of high real interest rates, weaker economic growth than in the past in most sectors and most countries of the world, and growing income disparity in Canada, in the US and in most other areas.

These driving forces each have their own implications. High real interest rates put any debtor in a very difficult position and make for rising debt ratios if people are running any kind of so-called operating deficit. These are compounded or made worse if that's done in a context of weak economic growth. Indeed, those same high real rates themselves may be causing substantially weaker economic growth.

1120

The outcomes of all this that we're observing are weak productivity growth in most countries of the world and in Canada, a continued focus on deficit and debt reductions triggered by the high real interest rates, slow growth, concern about private and foreign debt ratios as well as public debt ratios at the present time. The private debt ratios and personal debt ratios are also at all-time highs, and only recently have we seen a turnaround in the foreign debt ratio of Canada vis-à-vis the rest of the world in the last several years, and that, if we are able to continue with current account surpluses or balances, should continue. But in the same environment, we're also finding that the support for maintaining public services is declining, as an outcome of this, as governments move to cut back.

Based on that background the question is, what is the outlook for the Canadian economy as you prepare your budget over the next year or so? I will take the sector, as we usually think of GDP and can talk about whether it's going to be 2.5% or 3.5%, but it's not easy to work with that level of abstraction. GDP is an aggregate of a number of components. I'd like to look at the pieces of that first and give you a sense of the underlying strengths and weaknesses that we do see in the outlook and that might be fruitful for our discussion.

If we start with governments, that's the area where we expect the weakest performance in the national and provincial economies, with continued restraint resulting in declines in real spending on goods and services. As you are aware, the infrastructure program that was started up several years ago is now in the wind-down phase. There was a bit of a top-up in the last federal budget, but the net consequence even of that will still be probably a lower level of spending in 1997 and 1998 than occurred in 1996 and 1995. If you subscribe to the view that all that happened under the infrastructure program is that a number of projects were done that would have been done anyway and were perhaps brought forward in time, then you might be even more negative about a view of what the outlook in 1997-98 might be. I suspect that varies by jurisdiction and who participated in it.

Some governments will be spending and cutting taxes, but the general thrust appears to be continued restraint. Overall, we have a decline in 1997 of about 2% in the real goods and services used by federal, provincial and local governments in Canada.

The next-weakest sector is the consumer. The consumer in Canada essentially continues in 1997 and 1998 to have very weak income growth. Real disposable income is essentially flat per capita, likely to be declining. This results from a number of things, not the least of which, we sometimes forget, is that lower interest rates, for all the ballyhoo about what they are going to have happen out there and as welcome as they might be to us debtors, do take away the income from financial assets, which is the basis for a number of elderly people living on that income. They've had, of course, a good ride for a number of years, with very high interest rates, and so one can ask about time. But nevertheless, whatever moral judgement you wish to put on financial income, the effect is that with lower interest income many people will cut back on their spending, even though there are others who will, of course, at lower interest rates now borrow to spend more.

Net, the overall consumer or household sector has net financial assets, that is, they have financial assets in excess of their financial debts, and so the net effect on their income is usually lower income, and more so than they save on interest payments. A group within that, however, the people who borrow, tend to be more willing to spend on goods and services than those who are receiving the interest income. With a lot of the interest income, of course, net reduction doesn't affect people today but rather will have longer-term consequences, since it's affecting their registered pension plans and RRSP balances, the rate at which they may be building. That can be adjusted by higher contributions at a later point in time.

But the high personal debts are there. Personal debts currently in the household sector, as I mentioned a moment ago, are at an all-time high. The savings rate in the consumer sector, household sector, has been dropping throughout the last five or six years. It's down now to roughly 5.5% to 6% of disposable income. If you take out the committed funds in pensions and the savings portion of life insurance etc, what you find is that so-called discretionary savings remains negative and is expected to be negative again in 1997. Nothing, again, that says that can't happen, but it does suggest that there may not be room for substantial further reductions in the savings rate to keep things on a good hilt.

In that kind of an environment, although some confidence measures are showing some pickup, from work we have done we find that income and real interest rates have a lot to do with explaining consumer confidence, and we have not seen anything yet that would suggest a major improvement in that area.

In those two sectors, the first sector of government accounts for about 20% to 25% of the GDP in terms of

the goods and services component, the consumer about 60%, so we're talking already about 80%. The other sector, exports, is more a net story, but on the export side, slowing US growth — most forecasts are looking for growth in the 2% or 2.5% range for the United States in 1997, with the risk being that it will be less than that, particularly if the Federal Reserve moves to raise interest rates at some point in time this year. It's particularly expected it won't be substantially higher than that because of a fear that at an unemployment rate of 5.3% — I believe was the last number — it's very close to its potential growth or potential level of output.

We've also had a very strong export run in Canada, vis-à-vis the US particularly, fuelled by substantial depreciation of the Canadian dollar in the early 1990s. There is some question as to whether there is a substantial amount of further gains to be extracted in that particular sector. Our focus is almost always on the US-Canada exchange rate; the North American dollar has tended to appreciate against Japan and against Europe recently, and that tends to act as a damper against those sectors, although that only affects about 20% of our trade, at most. While the export side, in our view, will still contribute above-average to the overall economy in 1997, it won't be carrying quite the same bang for the buck or the same contribution that it had in 1996 or 1995.

In the housing sector, again some pickup expected. We're looking at about 140,000 starts, up from about 125,000 starts. That sounds great, and it is certainly welcome, but we should recognize that 125,000 starts in 1996 was the lowest level in about 35 years, so it is coming off of a relatively small base. Again, while lower interest rates are helping in that sector, weak income still remains a problem. Even though it's possible today to get a five-year mortgage at rates that are substantially below what they have been in previous years, people who enter into such obligations typically will also ask, "Will I be able to pay the mortgage at renewal in five years?" and that certainly, with the kind of income performance and uncertainty on the unemployment side, is not something that everyone can answer confidently.

1130

That brings us finally to business investment, which is an important component of the economy, some 18%-plus of the GDP. Lower interest rates will certainly help in this area. We are also seeing, in specific sectors, substantial intentions to invest more; the oil and gas sector is up, pipeline transportation. Unfortunately, you don't have much of that here, although you do make some of the equipment that goes into that and some of the pipe.

Essentially, what you see happening out there is business, in many cases, waiting for the other driver that is most important in the investment decision, which is that they have to see the demand for it.

There's a small typo here. The word "sight" should be there rather than "sigh," although that might be appropriate as well. You heard some of the sighing earlier from the CFIB. I would just point to their survey, actually. If you noticed in there, they said the one thing small business was waiting for, of all of the things, was a pick up in demand as the basis for making a decision about hiring.

The same story is there on the investment front, and it's head and shoulders above other reasons. In fact, some people often say on the business investment front that the only three things that matter are demand, demand and demand and everything else, in some sense, accommodates that investment decision, is not triggered by itself. The consumer, in particular, is acting as a brake on any expansion in the retail space side. One need do no more than walk through any of the major cities around Canada and this province and notice that there's quite adequate retail space ready and available, often with the fixtures still sitting in there that can be bought.

Taking all those pieces together, one comes out with a view — we're at the low end of the forecasters in the year 1997; this is not always our position, although unfortunately it has been for the last couple of years — of about 2.5% growth, which will be up from the 1.5% growth in 1996 that we had forecast. We have continued modest growth into 1998.

The other constellation of forecasters tend to be in the 3.5% range, the primary difference being the optimism about the consumer. I don't know if you've had other model-based forecasters coming in or not, but the model-based forecasts have tended to be at the lower ends and the banks at the higher ends.

Let me very quickly just cover a couple of other points. In this outlook I gave you, there are some provincial fingerprints, as I call them, that should be noted. There are cutbacks, as I mentioned, in some of the transfer payments, particularly social assistance. There are layoffs of people. This directly affects employment outlooks and incomes in some provinces. Indirect taxes are rising where user fees are increasing.

The number of jurisdictions' uncertainty is up. Basically, uncertainty simply acts as a delay. An investment delayed a year or a decision to hire delayed a few months all have their consequence in terms of slowing down the pace of economic activity. I think the last time we met we talked about the package that had been offered in the last budget and the associated tax cut. The point made there was that the tax cut does improve the number of jobs but it's only a very partial offset to the job losses associated with the rest of the program.

That brings me to the next chart, which is the so-called multipliers. The simple point I wish to make here is that there is some sense in which we do know the relative effectiveness of different actions by government in terms of their impact on the GDP, both nationally and provincially, and also the number of jobs created per million dollars, or if you want to think of these as thousands of jobs per billion dollars.

The actions I've shown you here represent what one finds after two years of a particular change being in place. In the first year, you sometimes get an initial impact that will be somewhat less than this, but then as the subsequent income goes through the system you obtain a level which is roughly higher.

The way you read this, for example, is that increasing purchases of goods and services by government would result in roughly 1.6 times that amount of spending being added to the gross domestic product and would result in roughly 28 jobs per million dollars spent on that activity,

or roughly 28,000 jobs per billion dollars. These are national multipliers. The provincial effect for the direct spending activities is roughly 60% of these numbers, and for the income effects, the tax changes, and if we had transfers in here, it would be a similar story: About half of that sticks to the provincial GDP. This varies by province. If any of you are interested, we can go into further detail at some subsequent time on that.

But the point to take away from this is that even if you had the same number of dollars, say, being taken out of employing people and delivered back in a tax cut, the net consequence of that action, while it may leave the initial effect, direct budget unchanged, is likely to be a substantial reduction in GDP and a substantial reduction in the number of jobs.

There are one or two other charts. The unemployment rate is something we focus on from time to time, and the course of what's been occurring there is perhaps interesting, although interesting in sort of a bitter-melon way. When you have that dish, someone once described it as interesting.

Canada's unemployment rate versus the US unemployment rate: On this chart I've given you, the thick black line with squares is the US unemployment rate, and the square turned on its side, the top line, is the Canadian rate. Essentially, we tracked with the US rates very closely back prior to 1981. Indeed, if I'd run this back another two or three decades, you would have seen a similar pattern. However, in the recession of 1981-1982, Canada opened up about a 2% gap with the United States, and that gap essentially persisted throughout the 1980s up through 1990, at which time we also went into a recession, again one longer and deeper than in the United States, 1990-92 here in Canada. As a consequence, we came out of that roughly 4% higher on the unemployment rate, which is roughly where we sit today. We're at 4.4% or something like that at the moment, but that's the kind of story, and that has persisted up through to the present day.

So we've had these two tranches of structure between the two countries. There are lots of discussions about why. The simplest discussion is that we have chosen, first in the 1980s and again in the 1990s, to run our economy with substantially more slack than the US and, as a consequence, it's not surprising that you come out with a substantially higher unemployment rate.

But I thought what might be interesting to you in Ontario is that until 1991 Ontario tracked very closely to the US unemployment rate, in fact, in some years being below it. From 1991 on, essentially it has now moved to a position in which the unemployment rate is now tracking very closely to the Canadian rate, of which of course it is roughly 40%. The behaviour, if you will, or the setting is now much more one in which Ontario is also running about 4% higher than the US rate and is a more recent history but nevertheless represents, if you will, some sense of the room for improvement in Canada. I'm not going to run around trying to explain who we fault on that, because there is in fact a variety of causes.

1140

The other characteristic, which is partly reflected in that unemployment rate story, is the so-called employment ratio, what fraction of people are working out of the people 15 years and over who aren't in jail or aren't in the armed forces. That's this bottom line in this chart labelled "Employment Ratio."

One of the things that has happened in Canada in the 1990-93 period was a substantial decline in the employment ratio. What has happened subsequent to that, through 1996, has been almost no recovery of that employment ratio. That's what's notable or noticeable. The decline occurred back in the 1981-82 recession but, as you notice, it turned around and we clawed back on that employment ratio to new highs by 1989-90. That has not happened this time around, and I've tacked on to here our forecast for the next four years from a recent forecast, suggesting that there will continue to be some problems in this area.

The other thing that has happened in Canada is that the labour force participation rate, the top line in this chart, fortunately for some in terms of the visibility of the unemployment rate problem, has declined as well over this period, from 68% down to about 65%. If that had not happened, the unemployment rate would have been substantially higher than it is presently and the magnitude of the shortfall in the economy would be apparently much larger.

Pierre Fortin, in a recent presidential address to the Canadian Economics Association, has been describing this period since 1990 as the "Great Canadian slump," and indeed suggests that this slump of the 1990s exceeds everything we've known since the Great Depression, with cumulative losses already 30% of the corresponding losses of the 1930s. The culprits, in his view, are the monetary and fiscal authorities pursuing restraint to eliminate inflation. The only thing Pierre and I disagree on is the magnitude of the current shortfall. I think it's larger. It doesn't necessarily mean that this will continue out to 2000, 2005 or 2010. That is the prognosis with currently policies continued, and of course that's up to you.

Let me open it up for your questions. Thank you for your attention.

The Chair: Thank you very much. If we could start the questions with the government side, Mr Rollins.

Mr E.J. Douglas Rollins (Quinte): I believe I had the pleasure of listening to you on Monday night on television. You appeared on Monday night on the television that I was looking at, I believe, whether that was live or not. I enjoyed some of your comments.

Mr McCracken: Just some?

Mr Rollins: Some; some I didn't agree with. The federal government, in coming up with as good a job as Paul Martin has, there's no question about it that one of his biggest helpers was his interest rates. They have certainly helped.

Another contributor that has basically hurt Ontario is the number of dollars left in the unemployment insurance fund, or employment fund, whatever you want to call it — a large portion of that comes out of Ontario. How do we get that back into Ontario? How do you see that coming back? If that were to come back into Ontario, it would certainly have put us in a lot better balanced budget position than where we are at the present time.

Mr McCracken: You're referring to the current $5 billion surplus, roughly, that's there, yes. If, of course, it had come out and it had been paid by a reduction in the benefits, say, down to $2 per hundred from $2.90, then the consequence would have been positive for income of consumers and wage earners. The consequence would have been one of positive effects on consumption etc and all provinces would have benefited, but in particular Ontario tends to pick up a little bit extra when the consumer does well because you have a lot of consumer producing and supporting sectors here in Ontario as well.

The issue from the federal government's viewpoint, I suspect, is that if that were to happen, they would be running a $5 billion larger deficit because the unemployment insurance account is integrated with their public accounts and national account. The issue then becomes, does that dampen the magnitude of interest rate reductions that are possible or do the provinces keep urging them to get their house in order and they then go to other vehicles to do that? If they went, for example, to a personal income tax increase for $5 billion to pick up the slack in their fiscal position, then what you gained on the one hand you would see yourself losing on the other.

If instead they had said, "No, we're going to cut more employment to make up that $5 billion," more program spending, then to the extent that there's a disproportionate number of those hits occurring in this province among federal employees, you would have lost it there and that would have more than offset the gains you might have gotten from the unemployment insurance side.

The only caution I'm giving you is that before one insists that the unemployment insurance premiums should be reduced dramatically, make sure in that discussion you have a good, clear idea of what they're going to do on the other hand because you may find that does even more damage to you or to the province than the unemployment insurance premiums themselves.

By the way, I would also note that unemployment insurance premiums affect you in another way directly and that is, as an employer, this province pays them. So you'll find your supplementary labour costs affected by the employer portion of these premiums, and to the extent that they are higher than they otherwise would be, this costs you directly as well.

Mr Gerry Martiniuk (Cambridge): I was just curious about your negative stance on the fall of interest rates. You say that is a negative. I would have thought it would be a positive. Debtors tend to be younger, spending more, the export of debt. Is it a positive or a negative overall?

Mr McCracken: Thank you very much, Gerry, for the opportunity to correct the record. I have been arguing for lower interest rates for so long that I don't think anyone would expect me to say other than that it's great to see it happening. The only consequence I was trying to make clear to us all is that in that euphoria for lower interest rates, we ought not to forget that the consumer, that sector in specifics, is not getting any help on the income side from those lower interest rates and that while the debtors among us — and those do tend to be the families starting out and the younger groups — will tend to get a positive effect out of lower interest rates.

The creditors who also happen typically to be combinations of older and/or wealthier —

Interjection.

Mr McCracken: Yes, some of you would recognize that condition I know — that group will have less income.

But the big beneficiary of lower interest rates are federal, provincial and local governments, which tend to be large debtors, and the fiscal room that provides to governments is quite substantial.

If you look at just the simple example of the federal budget, when they look at reconciling how things changed between this year and last, they had much weaker income growth, revenue growth, because the economy grew much more slowly than they had anticipated, but that was more than offset by a substantial reduction in interest payments on their debts. They saved some $3.2 billion. That's why in the final analysis they came out in a much more favourable position than they had originally anticipated. So interest rates are great.

The key thing for that to benefit the economy is that the fiscal room that governments now find they have with lower interest rates gets cycled back into household incomes and business incomes etc, in my view. That's where sometimes we depart in terms of either how to recycle it back or whether the best use that we can imagine for a windfall from lower interest rates is to lower the deficit, and some people put more emphasis on that on the basis of some mental model that is quite different from mine.

The Chair: Mr Grimmett, do you have a one-minute question?

Mr Bill Grimmett (Muskoka-Georgian Bay): Yes, I can make it brief. I'm quite curious. You seem to have a lot of enthusiasm for the income tax cuts that we're bringing in, but you repeatedly mentioned in your brief the weak incomes of the consumer. I wonder how you can reconcile those two.

Mr McCracken: Oh, not at all. I'm very pleased to see that you are doing something for the consumer, but you're also hitting that same consumer with direct job losses and with cutbacks in services and with reduced transfer payments under social assistance, so it's not clear, net, whether the consumer is in fact a beneficiary of your whole package. It's only in that context that I raise the issue. They may have been better off, for example, if you hadn't cut personal income tax but had left in place social assistance or some of the employees in government.

1150

The other thing to note is that, of the things you do, the bang for the buck — in terms of either job creation, GDP — from personal income tax cuts tends to be quite modest, in the same ballpark as payroll tax cuts, which is what the UI is, compared to other kinds of tax cuts or other direct programs that one can look at doing. That's the only context within which I would criticize it.

If the option was to do nothing and run a smaller deficit versus having the personal income tax cut at the time, I said that the personal income tax cut is a good device for at least taking some of the sting out of the other package, so it was welcomed in that sense. That's

what we said in our report. We got about half the jobs back or a third of the jobs back, as I recall, from the study we did of your package last year.

The Chair: Mr Phillips, eight minutes.

Mr Phillips: The area that I'd like to focus on is jobs because I happen to think that's —

Mr McCracken: I think I've heard this before from you, Gerry, your interest in jobs.

Mr Phillips: I must say I very much appreciate your two charts on page 5. I thought they are very helpful to illuminate the problem and make me even more concerned about the issue. Just in terms of what is reasonable to expect in terms of job growth over the next two to three years, I did say that just in the raw numbers, Ontario has had over the last three years — 1994, 1995 and 1996 — an average of 3.4% real growth, which is better than what anybody is predicting over the next three years. I don't think there's anybody, including the bank economists, who will predict an average growth of 3.4% over the next three years. Over those three years, employment grew in Ontario by an average of about 1.4% a year.

My first question is, can you give us any advice on what is reasonable to expect? How should we think about job growth and what's reasonable to expect over the next couple of years in Ontario?

Mr McCracken: The simple rule of thumb that we use, and it goes back really to the early 1960s, is something referred to as Okun's law. This is essentially an observation made in the context of the US economy, that you need roughly 3% growth in order to lower the unemployment rate by one percentage point. If you were at 9% and wanted to get to 8%, you would need roughly a three percentage point improvement in economic growth. Tuning that to the Canadian circumstances, it looks as if the number is more like about 2% or 2.5% additional growth to lower the unemployment rate one percentage point.

The reason I'm trying to be a little cautious for you and to help you is that if you think about that process of what happens and just think of the last several years, obviously it depends on whether what we're observing is full-time or part-time growth. It depends on what happens to that labour force. Does it come back in all of a sudden when the economy starts improving in terms of its outlook? Do people who say, "I've given up," suddenly say, "Well, maybe I should come back in and look for a job again"?

If that happens, you may find that your progress on the unemployment rate is much less than what I indicated and you need much more growth in order to make the progress that you would otherwise think.

You could conceive also of programs that, let's say, focused on hiring youth and where the emphasis was more in getting the body count of employment up. It could be done perhaps much more cheaply and with much less impact on GDP. A lot of that would depend on the nature of the policies.

If I were trying to give you some rules of thumb, what I would suggest to you is to take 2% GDP growth in the province as a conservative measure of what we call the "potential growth rate" in Ontario. If you get 2% growth, there's a good chance your unemployment rate won't change from wherever its current level is. If it's less than that, you're going to have that unemployment rate going up; if it's more than that, then you'll make some progress going down. Then, relative to that standard, ask yourself how much additional growth you can get. For every 1% of additional growth over and above 2% that you get, you might anticipate something like about 0.5% decline in the unemployment rate coming out of that. That would be another way of putting it into your minds.

If this is of interest to you, I can update something we did on this nationally a few years back and apply it specifically to Ontario.

Mr Phillips: That would be helpful.

Mr McCracken: It might give you a sense of it. I think these rules of thumb are helpful for all of you, because I think you'll find you have a shared interest in having a sense of what the magnitude of economic growth is.

Mr Phillips: The finance officials said to us that employment growth will occur at about the rate of real GDP minus 1%. I've looked back for at least the last 10 years, and the employment actually has been less than GDP minus 1%.

Mr McCracken: What they're basically looking at is the productivity effect, how much would productivity be, and that would be the difference. Then the other complication brought in by the change in the unemployment rate is what happens to that participation rate out there.

Mr Phillips: That's my second question. The bank people also said they're predicting GDP growth at 3.3% in 1997 and 3% in 1998 and employment growing at 2.2% and 2%. So they confirm that, real GDP minus 1%.

Mr McCracken: Yes, the 1% rule.

Mr Phillips: I have a couple of questions on your employment ratios. What's your feeling on where those people have gone? The participation rate, you indicated, in 1990 was around 68%, I gather, from your chart. Those are national numbers, I guess.

Mr McCracken: Yes.

Mr Phillips: Now it's down to, if I'm reading this right —

Mr McCracken: To about 65%, 64.6%.

Mr Phillips: What's happened to those people? Where are they now?

Mr McCracken: It's interesting, if you take those numbers and break them up — you can break them up all kinds of different ways. But one way that's very interesting to break them up is by age and sex. What you find is that the 15- to 19-year-olds is the group where that participation rate has dropped the most, from 70% down to 50%. I'm going to tell you that's good news. The reason it's good news is that we think a lot of them are staying in school or taking further education and not jumping out into what is a very hostile job market.

I say it's the good news because they will be better trained. The bad news is that they're going to come out saying, "And where's my job?" They're going to want to participate even more than they might have earlier in the labour market and in society. The only good news is that you haven't trained them in using small arms in that period; otherwise, they would be very unhappy when they come out.

The other group which we observe having a substantial decline in the participation rate are those over 55. There's a substantial decline particularly among males in their participation rate. This generally goes under the euphemism "early retirement." The problem with early retirement is that for some that's exactly what they wanted and they're extremely happy. From society's viewpoint, we say: "God bless you. Enjoy. Spend. Stay healthy, and if you get sick, don't spend a long time in the hospitals."

But a number of people are saying that they're retired because they have given up. It's that number, the so-called discouraged worker, that is a real concern for us, because you're taking people who have had 30 years of experience, broad-based sense, perhaps remain still with some major family responsibilities and they've essentially given up. In some cases, we see them using up their RRSPs at a rate that they will be all gone well before they even get to 65. It is a matter of substantial concern.

1200

The other group is modest adjustments but in groups which are very large, and that's prime age male participation rates dropping from 92% down to 90% in some areas. That's a group which is, again, the breadwinner in many families. Also, female participation rates, which were growing quite rapidly, particularly in the prime ages, up until this recession, have essentially stopped, with the exception of the 20-to-24 groups, which are still rising; and stopped at a level that's significantly still below the male rates. That's the other place where it's happening.

That gives you at least a sense of it. Some of them you see are problems; some of them you see are adjustments to a hostile labour market, where people say, "I've got to go out and get more training." Others may be signs of despair among the older group.

The Chair: Thank you very much. We move to Mr Pouliot.

Mr Pouliot: Thank you very kindly. It's so interesting and insightful indeed that it generates a series of questions; maybe we can do so in a broadly summarized form. There are two issues I would like your opinion on. You've mentioned the rising income disparity, and I think that's been emphasized more so over recent years. I have, I must confess, somewhat of a bias vis-à-vis interest rates, because we find they're catalytic, they're so important in the overall performance, the money supply and its relationship with the money on account. I would like your opinion and some comments on that.

Mr McCracken: On income distribution, we have seen some changes in income distribution in Canada; not as severe as in the US. But the rich are getting richer and the poor are getting poorer in some sense. In particular, what you're observing is that much of the wage growth that's been occurring in earned incomes has been occurring in the top 20% of the income distribution and that it has been falling in the bottom 20% and the bottom 40%, or stable in the middle group. So there is a growing wage disparity, if you will, or wage gap between those who are doing particularly well and those who are doing poorly.

If you do it by education, you also see a similar story coming out: those who have college or university doing relatively well; those with only high school or, even worse, no high school having lower wages.

The other thing you see happening is large groups in our employment side working part-time, working shorter hours, and another group working longer hours, so again a disparity that's opening up in terms of the hours of work reinforcing, if you will, the wage side.

We take all of that earned income, and of course high real interest rates will make creditors have explosive growth in their income in the same way there are explosive interest expenses for the debtors in a period of high real interest rates. That tends again to cause a schism, although the very low part of the income distribution typically don't have any debts, because they can't find anyone to lend them money. It tends to be that second and third quintile where the debtors will be and then the highly leveraged among the young gamblers maybe at the high end of the income distribution. But overall the high end tends to be net asset holders and earned. So real interest rates being high causes more of an increase in the disparity as well.

On your point on the money supply, I'm not quite sure of the point you're getting at. Basically one can look at interest rates and the determination of interest rates by just saying, "What is the outcome, what are the real interest rates and what are they relative to other countries?" and so on, or one can try to look at the supply and demand of funds by which those interest rates are regulated.

In Canada, with the number of changes that are occurring in the financial institutions, the variability in what we call the velocity of money, the turnover of money, and the different M1s, M2s, M3s that we have, I find it a much more useful device to simply ignore what the bank is doing in terms of the money supply movements and focus in on what matters, which are the real interest rates and the distribution of those interest rates.

I remember once sitting in 1980 among a group of labour union leaders in Ottawa — 1979, I guess it was — who were all somewhat upset with what was going on. I asked them all: "You're talking about your wage bargaining. What about M1 growth?" and then I made some comments about it. This guy came out and said, "What's this M1 you keep talking about?" I said, "People in this town think that's a determinant of your wage bargaining habits."

Of course they said, "We don't know what the hell it is, so it's not clear to us how it works." It became clear subsequently when we talked about real interest rates that they understood what the realities were.

So in particular I would suggest that until they're willing to give you some responsibility for running monetary policy, you focus on what they deliver for you, which is the real interest rate story, and those remain high in Canada at this particular point.

Mr Pouliot: They're not about to give us that responsibility, not our lot.

Mr McCracken: Just a quick footnote on that, Gilles. There is a proposal on the table that's been made now on several occasions, most recently by Pierre Fortin, that there be deputy governors appointed from the regions, with their own independent staffs, the point being that they'd be there in order to give a bit more feeling in the Bank of Canada on the difficulties and performance in

the different parts of the country and the realities of this country, so it's not totally hopeless.

Mr Pouliot: You've mentioned that real interest rates were still high and yet, by your presentation, in the near future we don't see the possibility of interest rates getting substantially lower. In your tone I discern that we would be fortunate if we were to experience 25 basis points in the next eight to 12 months. On the other hand, with high respect to you and to one Mr Greenspan, words for me to renew in my vocabulary, such as "rational exuberance," keep going. I'd love to have a bottle of Scotch with that man. But where do you see interest rates going?

Mr McCracken: A very quick story: A man died and went to heaven and as he came through the gates he was met by Albert Einstein, who was sitting there and saying, "What did you do on earth?" The guy said, "I was a physicist." He said, "Oh, good, let's go talk about the theory of relativity."

The next guy came up and he said, "What did you do when you were on earth?" He said, "I was a philosopher." He said, "Oh, good, let's go talk about moral philosophy."

The third guy came up and he said, "What did you do on earth?" He said, "Oh, I was an idiot." He said, "Oh, where do you think interest rates are going?" So the problem is, no one knows.

What we do know is the debate in the United States at the Federal Reserve is, do they or do they not raise interest rates? It's not a debate about whether they should lower them. It is either do nothing or raise them, and they'll raise them 25 or 50. Raise 25; if you want to do another 25, sort of death by a series of strokes. You might do 50 right off the bat as sort of a shot across the bow and then sit back and say, "For the time being that's all we think is necessary."

Of course, this is like a guy running around with a pin pricking at some balloons and saying, "How hard should I push?" Because the fear of course at the same time is that if you prick it with a 50 basis point, then you may have a stock market crash on your hands. That's of course why he's been trying to talk down the market rather than exercising it with a shock.

Mr Pouliot: With savings at a 20-year low — I think it's 5.3, personal savings, or 5.4; with the credit cards or personal debt at an all-time high; factor in that you have roughly 9.7% unemployment; there's been a transition between jobs and jobettes; you have the not-so-mythical Freedom 55 where people are exiting —

Mr McCracken: With or without income.

Mr Pouliot: — where is the money going to come from when you have an economy that is export-driven, as opposed to having a blend between export and internally driven? Where's the money going to come from?

Mr McCracken: Of course, export-driven tends to be good-quality jobs, high-wage jobs, so those in turn can create consumption and demand in that area. The question is, are there enough of them and can they sustain? Because that's also the sector, if you go back as recently as 1991-92, where there was a sharp drop in those jobs. It's a highly volatile sector and not one where you necessarily want to put all of your eggs. That's the problem, the potential exposure we have.

I was down in Washington a couple of weeks ago, including meeting with Mr Greenspan, but the shock I got that was most bothersome to me was a comment from someone in the US treasury who said, "We've noticed, by the way, you're running a current account surplus up there in Canada." Of course, the last time they noticed that was back in 1985-86 when they began putting lots of pressure on us. They felt we had gone too far in depreciating and taking advantage of the poor US and the pressure was to try to talk up our currency and get us back into a deficit. I explained to him that this was just transitory and I wish he would ignore looking at Canada for the next five years. We hope he will do so.

We may find the same problems that Japan has found. A substantial current account surplus is attracting a lot of US trade actions and these may not be to our benefit.

The Chair: Mr McCracken, thank you very much for your presentation before us today. We certainly appreciate the time and the effort that you've put into this presentation.

That concludes our morning session. I remind the subcommittee that we will have a meeting in this room immediately following question period, prior to 3:30, time permitting.

The committee recessed from 1213 to 1531.

BANK OF MONTREAL

The Chair: We welcome the Bank of Montreal, Mr Tim O'Neill, joining us this afternoon, an expert witness. I believe we'll have one hour together if you'd like to make a presentation. Hopefully, you'll leave some time for questions.

Mr Tim O'Neill: I would be delighted to do that, and I'd like to introduce my colleague David Hall, who is our expert on fiscal matters within the department and was very much involved, for example, in not only the production of the presentation that you have in front of you but also all of our evaluation of fiscal matters.

Thank you for the opportunity to meet with the committee. Three things essentially we wanted to talk about: one, the forecasts for the Ontario and Canadian economies; two, some comments on the deficit reduction targets within the context of those forecasts; and three, at the end, to talk a little bit about a longer-term issue, which is, when we achieve that wonderful world of surpluses instead of deficits on an ongoing basis, what do we do, if anything, with the debt?

As you can see from the table in front of you and from the commentary that is attached to it, we are and have been very bullish about the Canadian economy and also about the economy of Ontario. That bullishness is of course in quite striking contrast to the actual performance that we've seen in the national economy since the recession. With the exception of 1994, we could hardly argue that the economy has functioned in a robust manner, but I think we're beginning to see some clear evidence that that environment is changing.

You can see the specific forecast numbers and the dramatic shift in 1997-98 from what we saw last year when we're looking at growth of over 3.5%. The Canadian economy's long-run potential or trend growth is

about 2.75%, so we're talking almost a percentage point above that in 1997 and certainly 0.75% in 1998. That will bring the unemployment rate down. We'll still be operating in a low-inflation environment, and certainly in terms of long-term interest rates, we'd expect those to be tracking down rather than tracking up.

Those of you who follow the central banks of various countries may know that Mr Greenspan caused a bit of excitement in the financial markets today with his Humphrey-Hawkins testimony, and there's some speculation that perhaps it's an indication that the federal reserve is about to tighten. I'm not of that view, but it certainly would have potential implications for Canada.

Let me just say, though, that it's our expectation that with the kind of growth we're expecting to see, it may well be that in the second half of this year, the Bank of Canada will begin to move very, very moderately away from a fairly easy stance that it has established over the last year and a half, sort of tighten slightly. My expectation is that we're looking at a quarter point in the short-term rates as a consequence of that in the second half of this year and maybe another quarter point in early 1998.

Whatever tightening the bank may feel is necessary I think they'll largely allow to happen through what you can see, as we expect, a tightening Canadian dollar, that is, an appreciating Canadian dollar, rather than through higher rates, and because our long-term rates are above the levels that are consistent with both the kind of growth and economic performance we're expecting, we think those rates will come down.

The risk almost always there in one form or another is what happens in the US. Our expectation is that the US economy will, after showing fairly strong growth late last year, moderate again to that so-called glide path or soft landing or trend growth pattern that it has really averaged over the last couple of years. The concern is that an economy operating at full capacity is at risk of inflation accelerating, and that's why the markets were nervous today, as I suggested. But I don't see that happening, and therefore, although the risk is there, I don't forecast that we're going to end up having a significant impact coming from that source.

If I can switch then to Ontario, we expect very much the same sort of thing. Growth, as you can see: fairly substantial growth in 1997, and in 1998, in fact, above the average for Canada, a growth of about 4%. We do talk in the document about the risk, which is more significant for Ontario than for Canada as a whole, and that's the auto sector reliance. It's clear that we are currently benefiting from the strength in that sector. As long as the US economy is reasonably strong, that will continue to be the case. A slowdown there, of course, would have negative implications for Canada and, in particular, for Ontario. The relocation of Japanese manufacturers obviously is a positive, but with the much stronger yen that we've seen, it may well be that that will have a dampening influence on that investment flow.

Finally, we have benefited from producing the more popular models, especially the minivans. The question that one always has to ask about any very strong trend in consumer spending is when it is likely to slow down, and if it does, what implications does it have, and of course, it may very well be that we will see a moderation in that increasing degree of popularity in minivans. Those are risks. I wouldn't put a high-risk rating around that, but I suggest it's something that we have to be aware of.

If I can turn to the more direct issue of moment here, which is the fiscal situation in Ontario, we start first with the revenue side, especially as it flows out of this forecast. As you can see, we're anticipating that with own source revenues growing at about the same rate as nominal GDP, and let's use a price inflation number of the GDP deflator of about 2%, real growth of 4%, you're talking about nominal growth then in GDP, and therefore in revenues, of 6% over the next couple of years since we would be faced by the end of 1998 or early 1999 with moving into the same sort of situation as the US economy, getting closer at least to full capacity. You have to be looking then at an economy that would have to moderate itself to that trend growth. That's more likely to be something like 2.75%, so if the real growth slows to that rate and we continue to use that 2% deflator, then you're talking about a moderation in revenue growth to about 4.75%.

1540

We've given you a table showing the forecasts out to 2000-01. I won't go through all the details. Obviously, recently revenues have been running ahead of projections. That's obviously extremely helpful and, as well, the interest costs on the debt have been lower than anticipated because the interest rates have fallen more than anticipated. However, someone wiser than I has suggested that one should never mistake a bull market for intelligent investment decisions. We shouldn't allow ourselves to be lulled into thinking that kind of strong economic environment which creates pleasant surprises is always going to be creating pleasant surprises. It's for that reason that we, in forecasting out beyond the next couple of years, raise a flag about the capacity to generate revenue at the rate warranted in, I think, the government's own estimates.

As you can see from table 2, our expectation is for revenue growth from 1998-99 on to be lower — I'm sorry, in 1999 and 2000 — than the Common Sense Revolution documents would have expected it to be. Also, I think you can see that the debt interest charges are, in our estimation, going to be lower than anticipated, so the two just about wash out. But I don't think we should be overly sanguine, as I think some recent comments have suggested, about the possibility that the government can significantly backtrack on its expected spending cut program. In fact, it's our view that the government will keep on track to its target of a balanced budget only under the assumption that the spending cuts as set out originally in the CSR are implemented. So we get to a balanced budget, but only by maintaining the program originally set.

I think it's important then to make the following recommendation: that the government should attempt to get back on to the planned spending track. Should that prove, for whatever set of reasons, to be unworkable or unlikely, then we would have to suggest, to be consistent, that the remaining portion of the tax cuts be delayed. We're already publicly on record as having been concerned about the timing of the tax cuts. I want this

committee to understand that we're not in any way philosophically opposed to tax cuts as a consequence of achieving the target of deficit reduction. We've never been of the view that that ought not to be one of the rewards, if you will, of achieving fiscal discipline. I used to tell people, however, when my children were younger, I rewarded them for achievement, not for promise. Of course, now that they're in university, I reward them, and that's I think typical for children who are in university.

It's the timing issue, not whether there ought to be a tax cut. It's when it ought to occur. We need one of those two things. I think to ensure that the target which we agree is a critical one is actually achieved, either the planned spending cuts originally envisaged ought to be maintained, or the alternative is to delay the tax cuts. The risk of course is, the farther you go out into the future, the greater is the chance that reality will unfortunately not meet expectations.

We've had that experience in this country in virtually all of the key issues related to public policy, but in particular, if you go back over the period of the 1980s and early 1990s, fiscal problems emerged because expectations were optimistic and reality unfortunately didn't match those expectations and, therefore, targeted reductions in deficits turned out to be in fact, in reality, increases in deficits. It's our view that it would be unfortunate if that experience were to emerge again.

Let's turn to what may be a happier subject then, assuming that reality meets expectations with respect to deficit reduction, and I think it will. What happens when the hoped-for balanced budget is reached? Three options, and you are as familiar with these as I am: One can use surpluses to reduce the debt, to reduce taxes or to increase expenditures. The choice may very well be in various jurisdictions to use a combination of all three of those.

As I said, we're not opposed to tax cuts. In fact, I would hope that when that happy day has been reached, we will see further tax cuts. As far as program spending is concerned, it's highly unlikely that anybody could envisage in a growing economy that program spending would not grow as well. Now whether it grows in line with or slightly slower than is a matter of choice, but the fact is that that will happen. I would expect that the high-priority items that have always been in the purview of the government, health care and education, will be a focus of that activity.

With respect to reducing the debt, as I say, you've heard this issue of choice before. What we'd like to do, and I'll actually, with your permission, turn the microphone over to my colleague David Hall, is to talk to you about something I don't think is typically part of the debate. That is, if we do want to reduce the debt, and there are good reasons for doing that, how fast and what should our ultimate target be? We can be agnostic about how certain we are about specific numbers but I think we can say the debt should be lower than it currently is, and we think that should be part of the long-run target of this government.

I'll turn it over to David to finish our presentation and then hopefully open it for questions.

Mr David Hall: Our hope is to put on the table essentially a new idea that might be open for discussion, because you've probably heard before the three-way choice between cutting taxes or increasing spending or reducing the debt when we finally do find ourselves in a balanced budget situation. What we thought we'd do is present a way to look at the question of what is the optimal debt-to-GDP ratio. Obviously the debt-to-GDP now in Ontario and in most Canadian provinces is too high and it needs to come down, but what should be the goal? Where should we be heading for?

What we've done is tried to put this in the context of a question that can be debated. I think the way we need to do that is to look at the question of what is the optimal level of net public investment. Net public investment is in some senses an allowable expense for governments to borrow against because it provides a benefit to future taxpayers, and therefore it's reasonable for future taxpayers to be paying future taxes.

Of course, government borrowing to cover day-to-day operations of the government, in our view, would not be acceptable because it does not provide a benefit to future taxpayers, and therefore future taxpayers should not have to pay the cost. The rationale for this type of thinking is basically identical to that of a business borrowing to finance a new plant or borrowing to finance a new building. The future benefits from that plant or the future profits from that building will justify the borrowing.

What I'd like to do is sort of stretch our imaginations a little bit and assume that in the best of all possible worlds the optimal level of net public investment would be equal to the deficit. If that's the case, we can simply kick out through a nice little bit of arithmetic, which, if you choose to consult the footnote of our presentation, you'll find. I won't go through that. You can calculate what the optimal or appropriate net debt-to-GDP ratio is.

1550

Just to give you an example, suppose we were in this room all to decide that the optimal level of net public investment is 1% of GDP. That would imply that an appropriate debt-to-GDP ratio for Ontario is about 20%. Currently, Ontario's debt-to-GDP ratio is about 32%. I'll leave it up to you to decide whether or not 20% is an appropriate amount. I would suggest maybe something in that ballpark is appropriate, but clearly it needs to be lower than the current 32%.

Of course, the hard part is agreeing on the optimal level of net public investment. That's something I'm sure various people around this table could have many disagreements about, but it is at least something we can debate. It's much more difficult to say whether or not 32%, this abstract number, as the debt-to-GDP ratio is appropriate.

Some caveats I want to make about this way of approaching the question of an appropriate debt-to-GDP ratio are as follows: First of all, it may sound from what I'm saying that I would be willing to tolerate small deficits. I suppose that over the course of a business cycle, on average, small deficits might be appropriate. The problem we have of course is that we see deficits rising over the course of the business cycle in recessionary periods. It's easy for the deficit to rise by 3% of GDP in a recession, so what we need are small surpluses in the good times, and this is what I think government should

be aiming for, so that when you average that off with the rather large deficits in the bad times, you get a small deficit on average. Of course, small deficits on average will lead to small debt-to-GDP ratios.

The other caveat I have is that some of you may be thinking that what I'm saying is that deficits are okay as long as they're spent on new capital projects, and that's not what I'm saying at all. Notice that I've used the word "net" — capital spending or public investment — all the way through. The distinction is that to get from total capital spending down to net capital spending, we have to deduct off the cost of maintaining the current amount of capital held by the government or we have to deduct off the depreciation of the current capital stock. We're talking about a much smaller dollar value of net capital spending.

To take this argument a little bit further, some of you may be thinking that because education represents an investment, it would be okay to finance the day-to-day operating expenses of education out of the capital budget. I will point out to you that first of all, I disagree with that notion, but secondly, if you were to make that argument consistent, you would have to deduct from day-to-day education expenses the costs that have essentially been incurred in the past of those people who are leaving the labour force.

The bottom line of all of this and what I'm suggesting to you is that I don't think we should be thinking about what is the optimal level of debt to GDP for Ontario or for Canada so much as what is the optimal level of net public investment. I'm fully aware that many of you around this table will disagree about what that is, but I hope that's at least something that can be discussed and debated.

I think that's all we have to say. On behalf of Tim, I'd like to thank you for making the opportunity available to us to make a presentation. We're available for any questions you may have.

The Chair: Thank you very much. We have a significant block of time, about 35 minutes. Would you like to do one round of 12 minutes each or would you prefer to do two rounds of six minutes each? We'll do two rounds of six minutes each then, starting with the opposition.

Mr Monte Kwinter (Wilson Heights): Thank you very much and as always I welcome the presentation of the Bank of Montreal. The reason I welcome it is because it's usually quite balanced. You get the impression that we as opposition members don't want Ontario to be a great place economically and that we're very critical. That just isn't the case; we all benefit from an economy. But I have some concerns and we've expressed those concerns, and I'm pleased to see that you have some of the same concerns.

For example, you talk about the revenue forecasts and the higher-than-expected revenues and you make a point that my colleague Mr Phillips makes constantly about this $578-million adjustment for the 1995 calendar year plus the fact that government spending has gone up by $2.8 billion. I think even my colleagues to the left recognize that the deficit is a problem.

Where I have some concern is that at the present time there are projections that sound pretty good, but there are also lots of potential clouds on the horizon. Mr Greenspan today put out a caution about possible inflation, possible increases in interest rates. I have to say that the government is fond of taking credit for the great economic results, but it has been the beneficiary primarily of interest rates. I'd like to get your comment on that, but I think a great deal of what has happened is as a result of the very favourable interest rates and what they've done to the public debt servicing cost.

The other thing I want to talk about is this $2.8-billion program in capital spending over and above what was set out in the Common Sense Revolution. Today in the House we heard the Minister of Health say that he's going to be looking at health cuts in year three because he's under intense pressure. I can tell you that as the expression goes, he ain't seen nothing yet. As these hospital closures take place, as these horror stories come up, politically he is going to be under intense pressure to try to respond, which means he's going to have to spend more money than they had anticipated. That is going to happen with this downloading of the megacity. There's already talk, and you see it in the papers, where the government is reconsidering, which can only mean one thing: They're going to have to curtail some of the downloading because politically it's going to be unpalatable.

Just as an aside, I think the amalgamation issue is one that could have been sold in a minute. It's very simple to tell people: "You had seven duplications; you're going to have one. You had six city halls; you're going to have one." People could buy that. Where I think the government has lost its compass is when it tried to dump everything on it. The major concern is this downloading. The reason I'm giving this background is that I think these are the pressures that are going to be on the government to deviate from its deficit reduction plan, to spend more money than it had contemplated.

Also, there is this looming situation out there where everybody thinks things are going great and the economy is going to grow by 4% in Ontario. But when you actually pinpoint the buts, what happens if the Japanese decide that they no longer can build cars cheaper outside of Japan than they can in Japan and start to pull back production into the Japanese market? There are trends showing that the RVs, the minivans, that market may be cresting. We have Chrysler, the plants in Windsor, the plants in Brampton that are churning these things out like crazy. What happens if that changes? What happens if inflation does go up? I notice in the last report there were signs of inflation creeping up — not a lot, but it is creeping.

Could you elaborate on some of those things that you have actually highlighted in your analysis, just so that we have an idea of where the pressure points are and are going to be?

1600

Mr O'Neill: Sure. First of all, any regional or provincial economy obviously will be influenced by national factors. The rates of interest are national; they're not regional, they're not provincial. They're controlled nationally and they have an influence nationally. Certainly I think it's fairly clear that we are seeing, and saw in the second half of last year, some substantial positive

impact which will continue from the lower interest rate environment. That has influenced all provincial economies right across the country in a positive way and I think will continue to do so. In particular, I think it will be a positive for Ontario because of the particular influence it can have on the housing market directly, and I think also the impact it can have on consumer spending on durables, of which automobile purchases are one. In that sense, there's a national reason and a provincial reason for being optimistic here.

In terms of the risks, I'm not sure whether it's because economists are naturally pessimists — and as you know, H.L. Mencken once argued that a pessimist is someone who when he smelled flowers looked around for the casket. I don't think we're naturally pessimistic, and we have, as an economics group, been fairly high on the optimistic side for the Canadian economy. But I think it's not unreasonable, especially when we're engaged in this kind of activity, that is, dealing with government deficit problems and government fiscal problems, to be very cautious in actually rolling out programs of spending reduction or tax cuts or whatever they are, to do what I think has been done in other jurisdictions, and that is to continue to look out to the future, continue to underestimate the growth in the economy and overestimate, within the projections, what interest rates are likely to be.

The federal government has made virtually a theology of this, and I think it's worked. It's worked very well for them and I think financial markets have responded to that. I think it's appropriate, and I'll get to the specific risk that you referred to and that we referred to in the document. Generally speaking, it is preferable to be cautious, to underestimate the potential revenue growth, to overestimate the potential cost from the debt service side, and then you get pleasant surprises in life, and pleasant surprises are obviously preferable to unpleasant ones.

I didn't want to overstate, and I don't wish to now, the risk specifically to the auto sector. I simply point out that it is a sector of significance in the economy of this province, and a changed economic environment or a changed economic environment outside of North America, like in Japan, can have an influence and can have unexpected influences, can have influences that we weren't anticipating, and we should be prepared for those.

I have seen estimates. To take the third risk associated with the auto sector, not the Japanese yen and not the US economy, but the tastes and preferences of consumers, I have seen competing forecasts on what's going to happen specifically to the market for minivans, one suggesting this is going to go on for the next four or five years and another saying the market is about saturated now and it's due for a slump. I'm not sufficiently expert in that particular part of the economy to say confidently it's going to be this one or that one, but I say — and that's the reason we put it in the document — that risk is there and we ought to be aware of it.

We shouldn't count on as important a sector as the auto sector continuing to be as robust as we've recently seen it, and we should be prepared for the possibility that it won't be and therefore make our plans accordingly. I'm not trying to create any kind of feeling of impending doom here, but just let's be cautious where it's reasonable to be cautious and in so doing make our plans accordingly. Does that respond to your question?

Mr Kwinter: Yes.

Mr Pouliot: Gentlemen, welcome and congratulations on yet another spectacular quarter. We've watched the Bank of Montreal over the years lessening its exposure and more and more becoming what some have quoted as an investment company while respecting their responsibility to be a lender and to encourage and promote the marketplace.

You're not, in my humble opinion, pessimistic in the least. I want to share, and I want your expertise to reflect on what I will mention to you, and to help me put things into the Bank of Montreal's perspective.

On your page 2 in table 1, "The Economic Outlook," your forecast, you have for the country as a whole 3.4%; CPI, consumer price index, 1.1%; your unemployment rate is at 8.7%; your three-month bill, I would like to see what your forecast is on the spread, but we're talking three months, so it matters less here, it's not as impacting; your 10-year bond is 5.7%; your US/Canadian dollars you have 79.1. Then there's the one line and it says, "Ontario: Real GDP growth." Not only in 1998 do you forecast 4%, but you do so also for 1997. That is two consecutive years of forecasting 4% per year. You give us a 79.1 Canadian dollar and 1.1% inflation. I don't wish to see what it will mean for 1999.

Do you feel that some of your friends at Cirque du Soleil, the people who walk that very thin line — I have some difficulties, because you're still export-driven. Look at your job forecast. You don't see any pressure on jobs, because again, look at the numbers, so you don't see any inflationary pressure. You see a very bullish export market not being impacted by the higher Canadian dollar. You also forecast low commodity prices, a low futures market. That's a lot of minivan to pick up at the domestic level. Those are the revenue side. It's always a difficult item with government. It's like your own affairs perhaps, with respect, because you never make as much or seldom make as much as you hope you will, and you spend more. Things happen. You reward your sons and daughters, for instance, for good deeds, so it costs a little more money. Table 2, in my humble opinion, will attest to that.

I see that in year 5 — and you quote the Common Sense Revolution, but the year 2000-2001 is already one year past the first commitment of the Common Sense Revolution. You're so confident that you match their forecast in terms of balancing the books that you're offering options as to what to do with the debt. They still have an $8-billion deficit. These people are politicians. They're there to be elected, for the most part, and once they're elected, phase 2 of what they wish to do is to get re-elected. They don't trust my friend Mr Kwinter or myself, people like us, our colleagues, to administer the province. They claim all kinds of track records and reasons. That puts pressure.

The population is getting older. Demographics are an important factor, more so than ever before. Each and every month, you have between 7,500 to 8,000 or 9,000 people who enter the drug plan. Of 11 million in the province, about 110,000 per year go from 64 to 65. They

are not all on the dole, but they enter the drug program, so it's open-ended.

When I see that your revenue will increase, especially from the year 1999-2000 to 2000-01, that's a lot of money. Your deficit conveniently goes from — you see, from 1998-99 to 1999-2000 you go from $4.8 billion to $2.6 billion. We know that the debt is structured long-term, therefore less favourably impacted by interest rates. It matters less because it's spread over a period of 30 years. Then you go from $2.6 billion to zero two consecutive years. You're cutting $5 billion at the end of a political mandate? They'll speak very highly of them, but they will become members of the first brigade. It's like a death wish.

The very people who support them at this point — because this is a government, people say, that does what it said it would — might be the very same people who will not forgive them if they go for the last $5 billion in a short period and refuse to take maybe a year and a half or two years more. Mr Kwinter has mentioned, not in those words, but there will be many "Ms Jones, 74 years old and living in a small apartment — "

1610

The Chair: You are coming to a question?

Mr Pouliot: Yes, I'm coming to a question. What is your view on that? How confident are you? What burden, by your forecasting, are you placing on them, while we welcome your presentation? I hope you're right. I truly do. I mean, a bull market is genius, but at one time we're going to have to start factoring that, hey, there's a lot of hype and things like irrational exuberance. You might not agree with Mr Greenspan, but I'm not Mr Greenspan.

Mr O'Neill: I think the first question was, how could we sort of with consistency say we'll have low inflation, a stronger dollar and an unemployment rate coming down?

Of course, two of them are directly linked. One of the key reasons why the Canadian dollar will appreciate is precisely because we have a lower inflation rate than the US. The US is our major trading partner. If you look at it in terms of the proportion of the GDP influenced by the US, it's about a third, because 40% of our economy is dependent on exports, 80% of it with the US. So the arithmetic is pretty straightforward in that context. Therefore there's no question that the two economies are very closely linked and if you're running an inflation differential of the size that's implied here, because we expect about 3% inflation to continue in the US, it's inevitable. It has to happen that you have your currency appreciate in that context.

We have a very undervalued currency. I think the other side of that implication is that if you get a currency appreciating gradually, not only is there time for exporters to adjust, but keep in mind they're adjusting in the context of an economy whose costs are growing less quickly than in the major competitor.

So there's nothing inconsistent about arguing that you can have a stronger dollar. As long as you maintain that inflation differential and we don't go wild with increasing other costs of business, it's quite conceivable that our exporters would do very well, thank you, in that kind of environment.

The question that may be implied is, how can we get that low an inflation number? I think there were a couple of comments about recent increases in inflation rates in Canada. I won't go into the technicalities, but in fact we have so much slack in the Canadian economy built up over the last five years because we've grown well below our potential that the likelihood is that the inflation rate will come down rather than go up because of that.

For technical reasons associated with, for example, changes in auto insurance costs, it hasn't done that, but my prediction would be that come late fall of this year, we will see the measured inflation rate, the one that we all watch in the papers and wait for StatsCan to tell us about, coming down into that sort of range.

With the kind of growth I expect in the economy then and without that potential negative impact on our export sector from a stronger dollar, it's quite conceivable that the unemployment rate will come down in the way that we've described here. In fact, we may even be understating it, but let's again be cautious; economists are paid to be cautious. So I don't see an inconsistency there.

With respect to your second question, how and why elected officials make the choices they do at particular points in the political cycle I will leave to them to describe. I don't think I have the appropriate expertise to suggest what may or may not be the decision of a government coming up to a renewal-of-mandate situation, what they may or may not do. I can relate, if you will, or draw a parallel perhaps with the current situation of the federal government which, faced with what seems highly likely to be an election this year, came down with a budget that maintained the program that they had set out a couple of years ago. I can't predict, any more than I suspect anybody sitting here can predict, what the position of public opinion will be two years from now or three years from now in Ontario, and I can't predict what the current government will do in response to that.

What I can suggest is that if the program originally designed for constraining spending is maintained or restored, then we can see that kind of happy day emerging. Whether different choices are made — I find it difficult enough to make economic forecasts. I don't want to guess about political forecasts.

Mr Joseph Spina (Brampton North): Thank you, gentlemen. The bank has come through again with what my colleagues call a good balanced approach; we always respect the fact that economists are cautious.

I want to draw your attention to page 3, where you said that the balanced budget is achievable provided that spending cuts in the order of those set out in the CSR can be implemented. I'm trying to reconcile that with what you said earlier about recommending that there should be a possible delay of the tax cut. I'm trying to come to grips with the fact that in spite of your recommendations to delay those tax cuts, you state that the government can balance the budget provided it maintains its spending reductions.

I guess perhaps being overly simplistic, spending increases, taxes get increased; spending is reduced, therefore taxes can be reduced. That's fairly logical and fairly simple. So I'm just going to ask you to try and

reconcile that for me if you would. That's the first question.

The second one is regarding the automotive sector. You indicated that there's a possibility the automotive sector could leave the province if there was a downturn, Japan could take its production back etc. Yet at this point we have Honda and Toyota, specifically, putting in investments. The Honda plant will be opened next year; the Toyota plant will be opened next year. In the Brampton Chrysler plant, as an example, even if minivan took a downturn, they are fully anticipating opening a third shift, which is another 1,000 or 1,200 jobs at the Bramalea plant.

That being said, the IT, the information technology sector in this province, is currently running third behind the other two industries, the leading of course being the automotive. It's predicted, albeit by the IT sector, that that will be the leading industry in this province within three to five years. Do you feel that this could be very much a reconciling factor in maintaining a more balanced base in the strength of this Ontario economy?

Mr O'Neill: As to the first, I think what we were saying was, if I can make the points perhaps more straightforwardly than I was able to in the presentation, there is a risk that given our expectation that revenue growth will not be, in the later years, as strong as had originally been forecast in the Common Sense Revolution, the government may find itself unable to meet its targets if it does not either provide for the spending cuts originally called for in the CSR or, failing that for some reason, the alternative would be to then slow down the pace of tax cutting. In other words, you either allow more revenue to come in by not doing the tax cut as soon or you maintain your deficit reduction target the other way, which is by lowering spending as originally had been planned.

In terms of the auto sector, again, I don't think we meant to suggest that it was going to leave the province. What we were suggesting is that if the yen, in strength, were to continue at its current level — and I think there are reasons to suppose it might not, but if it were — it's not that investment will be hauled out. It's just that production would be shifted to Japan and away from North America. It's not just Canada that would be affected by that because it would be easier for the Japanese with a very weak yen to sell into North America from production sites in Japan or in other parts of Asia.

1620

My frank view is that the yen is not going to be as weak as it has been recently. I don't want to get into a lot of details. I'm quite happy to talk about it, but I think the fact of the matter is that the Japanese economy is in process of turnaround. The Japanese government has taken steps, for example, to assist with the recovery in the financial sector critical to Japan's recovery.

Our own expectation is that growth will pick up in Japan. At the same time, if the US is faced with moderating growth, but at risk of, as I think Mr Greenspan's comments today suggested, an interest rate increase, if that moderation isn't fairly soon appearing on the horizon, that would certainly tend to maintain the weakness in the end by strengthening the dollar. But because our forecast is that the US economy moderates and the Japanese economy picks up, our expectation is that the recent weakness in the yen is going to be reversed.

Is it later this year or early next year? I would think it's more likely to be early next year. Consider what that then means. If you are a Japanese producer, you don't want to be making long-range decisions on the basis of what is a short-term or expected to be a short-term phenomenon.

Mr Spina: Which they've done, the investments here.

Mr O'Neill: No. What I'm saying is that the expectation that the yen will continue to weaken or that it will remain as weak as it has recently become, if you were to plan on the basis of that, of course it would suggest that you're going to move production back to Japan. My expectation is that's not going to be the case.

Remember that one of the key reasons why the Japanese moved to North America as significantly as they did, apart from the issue of tariff barriers or trade barriers, was that steady improvement in the value of the yen over a 10-year period. It forced them in fact to move production not only to North America but to other parts of Asia.

A temporary weakening in that pattern is not, I think, sufficient to cause them to substantially change their long-run planning. I say it's a short-term risk, but I don't see it as a situation where we're facing chaos or we're facing a significant reduction in the role of the Japanese producers in Canada or in the US.

The Chair: Mr Martiniuk, do you have a short question?

Mr Martiniuk: Pretty short. We have a few presenters who have panaceas. One is monetizing the debt: borrow from the Bank of Canada. That's the way it's worded. I'd like you to comment on that. Also, what would happen if the governor of the Bank of Canada decided to set interest rates 1% below the market demands? What would occur? That's the second panacea: Just lower interest rates.

Mr O'Neill: From whomever a government wishes to borrow and has the right to borrow, ultimately deficits have to be paid for with higher taxes. Whatever is the current method for financing deficits, they can't permanently be sustained. I think the general rule is, the arithmetic is, that deficits ultimately cost taxpayers. So it's not a solution. We can't monetize the problem away or borrow the problem away from the Bank of Canada.

On the second question, I have to try and interpret your question — and if I'm wrong, please correct me — to be asking, could the governor of the Bank of Canada lower interest rates even further than they currently have been reduced and sustain that? First of all, of course, the governor and the Bank of Canada can do whatever they wish with interest rates. They could in fact reduce them as low in real terms as the federal reserve did back in the early 1990s to actually a zero real rate of interest for short-term borrowing, which was a 3% nominal rate because the inflation rate was 3%. We haven't done that in Canada. We could do that, but frankly I don't think there's any particular necessity to do that.

If you look at the cost of borrowing in real terms — that is, inflation adjusted — take inflation out of it, and look at something like prime lending rate, the prime

lending rate right now, which is very important to overall costs of borrowing in Canada, is 4.75%. The real rate is probably under 3.5% if you take off inflation. We have averaged over the last 30 years a real prime lending rate of about 4.25% to 4.5%, so we're already a percentage point below what that long-run average is. We already have a lot of stimulus in the system.

It was a short question and I'm giving you a slightly longer answer, but the answer would be, finally, I don't think there's a particular need for additional stimulus. It does take time for that stimulus, were it to be put in place, to work on the economy. We still haven't seen the impact of the cuts that the bank made in the fall. I think those are still to come in the spring of this year, and what we might risk in that case is overstimulating. In other words, we could lower it another point, but if we're going to get the kind of growth that I think we will this year, that would then force the bank to much more quickly and perhaps much more sharply raise rates again. Why go through that sort of significant further reduction only to reverse it in the near future? I don't think that would be necessary in the current environment.

The Chair: All three caucuses have extended their six minutes by about an equal time, just about double, but we do have time perhaps for a two-minute round and I would ask for your cooperation. Mr Kwinter.

Mr Kwinter: Mr O'Neill, I'd just like to get back to the projections that you show in the Common Sense Revolution. If you take a look at the program and capital spending, 1997 to the year 2000, they're virtually the same. It starts out at $41.8 billion; then it's $41.4 billion, $41.4 billion, $41.4 billion. We have already seen in the projections for this year that there is a shortfall of $3.3 billion as a result of the $2.8-billion program overspending and the $578 million which is a one-time 1995 windfall that will not be included and if it hadn't been there, it would have increased it to this $3.3 billion.

We have a regime where transfer payments are going to be reduced over the next years from the federal government and we also have cuts that are built into the Common Sense Revolution to get to these numbers.

My question is, what kind of drag is that going to have on the economy with all of that happening? Because the only way they're going to meet their targets is to cut even more than they had planned in order to make sure that this $2.8 billion that they already have to make up for doesn't get compounded next year in all of the things. Have you done any projections on what kind of a drag that will be?

Mr O'Neill: I was just asking Dave because David has done the estimates there. The estimate is that it is approximately 1%. So if you think about either at a national level what happens when the federal government is building in restraint or at the provincial level with the provincial government doing the same, you would expect to see growth rates, with the current stimulus from monetary policy, to be more like 5% rather than the 4% that we're projecting. So it's worth about a percentage point.

The longer-term issue, and this is more germane at the national level, is that if you decided to backtrack from that, what would be the consequences? Of course our concern all along has been that the gains that you get from lower rates get offset because the financial markets say this is not viable, they're reversing position, and rates will go back up again. Some of that kind of impact could conceivably occur here in terms of the rating and the rates that the government might have to pay on its borrowing.

Fundamentally, the answer is yes, there's no question there's drag, but if you believe that deficit reduction is essential, for all the reasons we've historically and today talked about, then it's a necessary cost of achieving that result.

1630

Mr Pouliot: I listened intently to the questions, Mr O'Neill, vis-à-vis the interest rate, and I checked and reminded myself that on the short term presently we're slightly lower than the US and the spread of the long term has been narrowing; I think it's 30 or 35 basis points at present. Nevertheless, traditionally we have run in tandem with them while looking at our ability to service our debt.

In terms of the near future, we need money to hit the marketplace to ensure growth. I read, maybe in one of your publications, sir, that consumer debt, el plastico, the credit cards are at an all-time high. The same article also mentioned that consumer savings were very low at the present time. People were still paying for the consumer-supreme attitude or the excesses, if you wish, of yesteryears, of the 1980s.

I talked to some of my constituents. They're not rich, those people. They were busy building the country, of course, but they're on fixed income, like GICs. They've noticed, as they mature and roll their GICs over, that it's not as lucrative, in fact it's not half as lucrative if they had long term. For instance, people have had strip bonds, a little more sophistication and so on. Then I looked at some of the phenomena that are still hitting us, like the restructuring, the re-engineering of the workplace, if you will.

I look at the possibility — because I too have learned to know the meaning of exuberance or irrational exuberance and maybe a market correction. I look at the NASDAQ index, and I see some price-earning ratios that are catastrophic, they're very exaggerated. If I factor all these things, without being negative, where is the money going to come from to justify 4% growth?

Mr O'Neill: I'll try to be very brief, Chair, because I know you're running out of time. Remember that with consumer debt you also have assets, and the net asset base of the household in Canada has grown over the last five or six years. One of the areas in which it has grown, of course, is those people who participated in the exuberance of financial markets. They've gained significantly as a result of that.

Secondly, consumers are also faced with a significant amount of pent-up demand. They've gone a long time with cars that are getting older and rusting and all the rest of it. So there's a desire to spend there.

Finally, I think what will unleash that, and this is really what we mean by confidence, along with the better prospects for low-cost borrowing and the reduction of existing debt charges, because interest rates are lower and

you can roll it over and gain significantly from that, will be the kind of employment growth that's imbedded in that unemployment rate falling. We're looking at probably 350,000 new jobs this year.

Mr Wayne Wettlaufer (Kitchener): Gentlemen — Mr O'Neill, I guess, especially — we're talking about Ontario's debt-to-GDP ratio of 32%, and Mr Kwinter was talking earlier about the concerns about future inflation. I think you would agree that all government spending is inflationary, and you would probably also agree that deficits are in themselves inflationary. They create higher interest rates or certainly they are one cause for higher interest rates, which of course is inflationary. I look at that debt-to-GDP ratio, the possibility of inflation, and I say that we have to get our spending under control. We have to reduce our spending. We have no choice. Would you agree with that?

Mr O'Neill: I would certainly agree with the conclusion that deficit elimination is a sometimes painful but necessary pain we have to go through. I might give you different reasons than you're suggesting. I'm not sure that spending per se is inflationary or even that deficits necessarily are inflationary, but certainly it has been true that the steady rise in the debt levels, relative to our capacity to repay them and relative to GDP, has been a cause for investors, domestic and foreign, to say, "We don't think this is a sustainable path, and we're going to demand that you pay a risk premium on your interest rates as a consequence of that." So certainly it has been a function in generating a higher-rate environment than we necessarily should have had.

The Chair: Thank you very much, Mr O'Neill. It's been a fascinating hour. We appreciate you making a presentation before the committee this year.

ONTARIO RESTAURANT ASSOCIATION

The Chair: We now welcome the Ontario Restaurant Association, Mr Paul Oliver. Welcome to the committee, Mr Oliver. We're pleased to have you before us today. We have half an hour to spend together. If you would like to make a presentation, we'll fill the remaining time with questions.

Mr Paul Oliver: Good afternoon. My name is Paul Oliver, and I'm president of the Ontario Restaurant Association. On behalf of the association, I'm pleased to participate in the consultations leading towards the 1997 provincial budget. We view this consultation as an opportunity to discuss a number of serious issues which are of importance to Ontario's hospitality industry and in particular to customers of the hospitality industry.

I'll attempt to make my comments as brief as possible to facilitate as much time for questions as possible. I will briefly make a few comments regarding these issues. However, rather than discussing all of the issues affecting the Ontario restaurant industry, the ORA has focused our submission on the one area of provincial reform which has yet to be tackled in any meaningful way by the current government of Ontario, and that is the reform of Ontario's beverage alcohol sale, distribution and tax system.

In our submission, the ORA highlights three areas that are critical to reforming Ontario's beverage alcohol system:

First, reform the dual monopoly system so that licensees of restaurants and bars can purchase beer from both the BRI as well as the LCBO. This initiative, we believe, will generate approximately $30 million to $50 million in new revenue for the treasury of Ontario.

Second, require the LCBO to permit licensees to purchase beverage alcohol on credit as all other customers of the LCBO are already permitted to do.

Third, eliminate the volume- or price-based licensing fee that's applied to restaurants and bars as it functions as an indirect tax on consumers.

While strongly supportive of a comprehensive reform of Ontario's beverage alcohol system, we believe that the three issues addressed in our submission are required in the short term and are critical to the continued sustainability and viability of the hospitality industry. Without these changes, it will be difficult for our industry to continue to make the large contribution it makes to Ontario's economy presently.

Ontario's beverage alcohol distribution and retail system is dominated by two monopolies: a publicly owned monopoly, that of the LCBO; and a privately owned monopoly, that of the Brewers Retail Inc or BRI.

BRI is owned and controlled 99% by the two breweries which dominate Ontario's beer industry. Ironically, both of these companies, which own and control the Brewers Retail Inc, are themselves majority foreign owned. This creates the ironic situation that one of the two monopolies which dominates Ontario's alcohol system, controlling close to $2 billion in sales, is indirectly foreign owned.

It is not, however, the foreign ownership issue which concerns the ORA but rather the lack of competition, service and fair pricing in Ontario's beer market that has been entrenched as a result of the dual monopoly system, which prevents competition even between the two monopolies.

Over the last several years, the LCBO has begun to enter the beer retailing sector, first with imported beer and more recently with some limited domestic brands and package sizes. This has no doubt added to the profits of the LCBO and its contribution to the provincial treasury, as well as substantially improved customer service.

Unfortunately, licensee customers are not permitted, even today, to purchase from the LCBO any beer listed for sale in the BRI; retail customers can, but licensee customers cannot. This inequity exists despite the fact that the restaurant and bar industry collectively purchases over half a billion dollars of beer annually from the BRI system. The ORA strongly believes that more competition and improved service is required relative to Ontario's alcohol duopoly.

By preventing competition even between the LCBO and the BRI for the sale and distribution of beer to licensee customers, the government is entrenching an unacceptable level of poor service, unfair and irregular pricing and forgoing the potential for $30 million to $50 million in additional revenue for the provincial treasury.

Think of the inconvenience and red tape faced by a small restaurant operator who is forced to go to two separate and distinct locations to purchase beer and wine, even though the LCBO sells both.

1640

By opening up the beer distribution system so that the BRI and LCBO can and will compete directly for licensee business based on service, quality and convenience, small restaurant and bar operations will see a dramatic improvement in the quality and level of service not only for beer purchases but also for wine and spirits. As well, the people of Ontario will enjoy more revenue profits from the LCBO in the area, as we noted, of approximately $30 million to $50 million a year.

The BRI maintains that its beer distribution system is the best in the world, and in fact they have recently hired well-known American actors to tell us so. If this is indeed true, they should not fear competition from a government-controlled monopoly. But with competition, it will be the marketplace that tells us whether BRI is indeed the best in the world, not BRI itself.

The next issue is that of credit for licensees. The LCBO should be given credit for many of the changes it has undertaken over the last several years to better serve retail customers. These changes include extensive and costly renovations to many stores, better product knowledge and, most importantly, the introduction of alternative payment programs, including credit cards and debit cards.

Unfortunately, while the LCBO has worked hard to implement these changes to combat the growing competition from over 300 private wine stores, wine-making stores, private beer stores and other legal and illegal distribution channels, the LCBO has ignored the needs of its other major customer category, that of licensee customers. It has continued its outdated programs and poor quality service for customers.

Collectively, licensees purchase in excess of $280 million in wine and spirits annually from the LCBO, but since licensees are a captive market, they are not accorded the same payment or service options as retail customers. This is because, unlike retail customers, licensees are obliged to make purchases from the LCBO regardless of how poor or outdated the service they receive is.

A glaring example of this poor service is the LCBO's means of payment required for long-term licensee customers: cash, certified cheque or, if you're really good, a regular cheque at the time of ordering or before delivery; no debit cards, no credit cards, no commercial credit; payment in advance, no alternative. It's hard to believe that in an era of electronic purchases, with the explosion of the debit cards and eventually the creation of a cashless society, the LCBO remains entrenched and clings to its payment system from over 50 years ago, but this is what licensees face today.

This treatment is in stark contrast to the flexible payment options provided to retail customers. You or I can walk in off the street, purchase wine and spirits on our credit card and pay for it at the end of the month when our credit card bill arrives. However, if you're unfortunate enough to be the operator or proprietor of a restaurant who has been a steady and loyal customer of the LCBO for more than 20 years, you have no choice but cash in advance or you get no product.

Even operators of for-profit events held under special-occasion permits, which compete directly with many restaurants and bars for customers, can make purchases on their credit cards, but not the restaurateur or the bar operator, because they are a captive customer and, as the LCBO says, there's no incentive to make improvements when they already get all the sales because they have a captive customer.

It is this complacent approach by the LCBO to licensee purchases which this committee should and must address. The ORA estimates the cost of permitting credit card purchases by licensees to be neutral or even represent a cost savings for the LCBO through the reduced cost of head office administration. Credit cards will also mean a sales increase of premium wines and spirits which licensees previously could not afford to stock.

For licensees, the introduction of credit card purchases will open up a new source of short-term capital financing. The restaurant and hospitality industry, over the last few years, has faced massive difficulties in securing operating capital and financing. For many establishments, capital simply has not been available, due to the reluctance of major banks to finance our industry. For many operators, the use of personal credit cards has been the only alternative that has enabled them to continue to survive. Since wine and liquor purchases are often one of the largest supply purchases made by a restaurant operation, the use of credit cards by the LCBO will help in assisting in this short-term financing need.

It is important to note that the use of credit card purchases from the LCBO by licensees has been endorsed by other organizations and groups, including the Ontario Liquor Board Employees' Union, and by the government's own Red Tape Review Commission.

Finally and most importantly, a tax is a tax is a tax. Currently, operators of restaurants and bars, known as licensees, pay two separate and distinct licensing fees. One licensing fee is a fixed annual licence fee; the other is a variable volume- or price-based fee which applies to the purchases of wine, beer and sprits made by the licensee. Two licensing fees, but only one establishment.

It is the view of the ORA that the volume- or price-based variable fee paid by licensees is in practice and design an indirect tax imposed upon consumers or customers of restaurants and bars. It is also the view of the ORA that this fee, as it acts as an indirect tax, is outside the scope of provincial constitutional powers and thus must be eliminated.

According to regulation 719 of the Liquor Licence Act, licensees pay a variety of fixed annual fees, including $815 as an application fee, $240 upon the issue of a liquor licence and an annual renewal fee of $300. These fees as well as the transfer fees generate over $3.5 million in revenue for the Liquor Licence Board of Ontario.

In addition to these fixed fees, section 103 of regulation 719 requires licensees to pay an additional licensing fee of $2.64 per hectolitre of beer purchased for sale and an amount equal to 12% of the purchase price of all wine and spirits, including the price of the containers. These

volume- or price-based fees generate approximately $35 million annually for the provincial treasury. It is these volume- or price-based fees which should be considered an indirect tax on customers or consumers of LLBO licensed restaurants and bars.

It is interesting to note that the indirect tax issue, as well as the ancillary regulatory argument outlined in our submission, are the same arguments used recently by the government of Ontario to justify why under Bill 26, the omnibus legislation, municipal governments could not impose local sales tax through a regulatory licensing scheme. The government of Ontario said that these types of indirect tax or regulatory schemes were not permissible under the Constitution. During Bill 26 committee hearings, the government was very clear in stating that indirect taxes hidden as a volume- or price-based licensing fee were not constitutional, yet today the restaurant and hospitality industry faces that very type of tax.

Under the Constitution Act of 1867, provincial governments are limited to imposing direct taxes and are excluded from imposing indirect taxes. From past court rulings and the application of the John Stuart Mill test as well as the general tendency test, both used by the Supreme Court in recent rulings, it is clear that the volume- or price-based licensing fee is indeed an indirect tax on consumers and exceeds provincial powers.

The courts have, however, held that provinces may impose indirect levies under subsections 92(9), (13) and (16) of the Constitution Act. However, the courts have held that these levies must be ancillary or adhesive to a valid provincial regulatory scheme and the fees raised from the indirect taxes are to be used to administer the regulatory scheme and are limited in amount in accordance with this purpose.

It is commonly accepted that the LLBO is indeed a valid regulatory scheme. However, the fees collected by the LLBO and directly remitted to the provincial treasury far exceed the cost of administering this regulatory scheme.

Annually, the LLBO collects over $55 million in annual licensing fees, while its total operating budget and cost is less than $8.5 million. This means that the LLBO regulatory scheme, in our view, is in fact generating over $45 million annually through the imposition of indirect taxes imposed on Ontario's consumers.

It is incumbent upon this committee to address this serious breach of provincial taxing power by eliminating the volume- or price-based licensing fee and pursuing an annual-fixed-fee licensing system which more adequately reflects the real cost of the regulatory scheme.

1650

In conclusion, it is undoubtedly time to get on with reforming Ontario's beverage alcohol distribution and tax system with priority and emphasis on addressing the glaring inequities in the existing system as well as identifying potential sources of new revenue for the government of Ontario. The three priorities which we outline in this submission begin to do this process and fulfil these criteria. It is now time for action. On behalf of the ORA, I would urge this committee to embrace these recommendations and strongly push for their adoption.

Mr Pouliot: I was surprised — not appalled or shocked — at the very size of many establishments, like 10,000 in Ontario. As a matter of consultation, simply put, what would you like, what do you think would benefit and why, in the next provincial budget, which will be some time in late April or more likely May? Many organizations come and put their best foot forward and they're mostly balanced. They seek an equilibrium because they know the government cannot live without some taxes. By the same token, they know their field so well that they come up with some positive suggestions. As I read this, and you tried very hard, there's no love lost between the LLBO and the restaurateurs, people who run bars and restaurants in the province of Ontario, is there?

Mr Oliver: This isn't between the LLBO and ourselves. The money we are talking about actually flows directly to the provincial treasury.

Mr Pouliot: I understand; big time too.

Mr Oliver: Yes.

Mr Pouliot: I see here, "A tax is a tax is a tax." If I invite members of the committee here — and I don't have an expense account any more so I have to pay for myself, so I'm conscious about the price of Scotch — and we go out for a drink, as a client of yours, is it not a concern that a lot out of a bottle of spirits, of Scotch, three quarters of it, is taxes? Is that not a concern in attracting customers in the marketplace?

Mr Oliver: Taxes on beverage alcohol, as we've discussed before this committee on previous occasions, is very much a concern of ours. I think that's led to the massive underground economy we see in Ontario as well as in other jurisdictions in Canada. What we tried to do this year is focus on one glaring example, of not only high taxes, but what we believe is wrong taxes or taxes that go beyond the scope of provincial responsibility. What we are trying to present is the view that you can call it a licensing fee, you can call it a regulatory fee, you can call it whatever it is, but at the end of the day it is a tax, and it's a $35-million tax on customers.

Mr Pouliot: I have to ask this question. You will forgive me but I know so little; I appreciate the fact that you come and help me. Four thousand five hundred people, it's tax after tax after tax. Governments seem to be insatiable, they never have enough, so bingo, they go after you. Out of 10,000 establishments and so on, I read the other day there was something like, I don't know — how do you say in English? — the black market, booze that flows —

Mr Oliver: The underground economy.

Mr Pouliot: It's a difficult question for you because you represent those dues-paying members here, but would it be 5%, 10%, 15% that are on the take? Because at one time you have to satisfy the banker and so on. If there were only you and I here — and you have immunity at this committee, right? You have immunity. Nobody's going to sue you here, sir. How many of your clients —

The Chair: He could express an opinion if he had an opportunity to do so.

Mr Pouliot: How many of your clients are bypassing their responsibility towards revenue Ontario and Revenue Canada? Is it 10%, 15%?

Mr Oliver: I think it's dramatically lower than that but I think it's probably reflective of the total underground economy, which is reflective of consumers out there. Part of what is generating the underground economy is not the small business operator who wants to avoid taxes, but the customer who walks in and says: "I'm not going to pay you that. This is what I pay you. Do you want the business — yes or no?" The industry is so competitive, the same as the retail industry, the used car market, all these large sectors that have underground economies, because the customer can say, "If I don't buy my used car here, I'll go down the street and do it," or, "If I don't do my consulting business here, I'll go down the street."

Mr Pouliot: The distillers were here yesterday —

The Chair: Thank you very much, Mr Pouliot. We'll move on to the government side.

Mr Douglas B. Ford (Etobicoke-Humber): Mr Oliver, if the present conditions were changed, as you see it, would there be an increase in job creation?

Mr Oliver: We did an economic impact analysis of eliminating the gallonage tax and it said that the immediate elimination of it over the next two years would generate 5,000 jobs and would be revenue-neutral for the government of Ontario after two years.

Mr Ford: Do you believe that?

Mr Oliver: Yes, I do, without a doubt. What we've done is look at price markups in other jurisdictions, and the savings that the operator would have would directly flow through to customers and go through into increased wages.

Mr Ford: Whereabouts in the province would these 5,000 jobs be created within your industry?

Mr Oliver: Everywhere in Ontario. The 15,000 liquor-licensed restaurants and bars and hotels are located in every riding in every part of Ontario.

Ms Bassett: Thanks, Mr Oliver, for your presentation. Nice to see you again. How has the reduction in the employer health tax helped to create more jobs in your industry?

Mr Oliver: As you know, it's just kicking in; I guess January 1 it kicked in. We're estimating about 75% of our establishments or maybe a bit more than that are actually now or will be exempt completely as a result, because it is predominantly small business. For smaller operators it means a lot less paperwork and more flexibility. I actually just noticed the reduction on a recent budgeting for the association and we're translating that into creating a part-time job this summer.

Ms Bassett: So it's a positive?

Mr Oliver: Yes.

Mr Martiniuk: Thank you, Mr Oliver. I believe you appeared in front of the justice committee on the VLT bill. In any event, that was about a year ago or shorter.

Has there been any change? I think you related at that time that the hospitality industry was not doing that well, especially since 1991. Have you noticed any change, speaking generally, in your industry during the last year or so?

Mr Oliver: Industry-wide sales have increased this past year about 1.8%. It's not strong growth. It's stronger than the rest of Canada. The rest of Canada had 0.5% growth but the previous two or three years they had had less of a decline than Ontario had. But the real sales per store continued to decline last year. We've seen seven years straight now of same-store declines. This is the problem we're facing, that a lot of these small business operators have seen profit margins shrink from 8% to 10% in the late 1980s to 2% on average now, recognizing the average business does $400,000 in sales. You can't even survive. The owner-operator's not making minimum wage at that level. The problem is that we're actually now seeing an edging up again of bankruptcies.

Mr Kwinter: As always, I enjoyed your presentation. Have you considered a judicial challenge on these Ontario taxing powers?

Mr Oliver: We have considered it. We are looking at it. We've actually commissioned two outside legal opinions on that and our board met on this issue a week and a half ago and directed staff to commission a third outside legal opinion of it. We would expect it to be very similar. Then the board will look at the cost of launching a legal challenge. They've dedicated the funding for the initial legal research on this, which has brought us to the point we are at today.

This is a relatively new issue. The gallonage tax is nothing new. It's been around for 35 or 40 years. It originally predated the introduction of the provincial sales tax. It was there to collect an alcohol tax before PST was collected on the resale. When the resale was brought in, it just became a double tax. We pay 10% when our customer buys it at the retail level and there's 12% buried in it. The Bill 26 hearings, as well as some of the changes we were looking at in Alberta's alcohol system, stimulated us to look at the constitutional issue of this. We're continuing to do that but we haven't made a decision yet as to what we do with the research we've developed.

1700

Mr Kwinter: I'd like to talk about your proposal about credit cards. I used to be the Minister of Consumer and Commercial Relations and I had responsibility for the beverage alcohol business, so I want to play the devil's advocate. It actually happened during my watch that we allowed credit cards for consumers, which was to stimulate purchases in an industry where the sales were going down. We had people come in and tell us that the spirits industry was really suffering and that the distillers were closing down and that kind of thing and that because it's an impulse purchase on behalf of consumers, if they were in there, if they knew they didn't have to worry about it, if they had the money right in their pocket or could put it on their credit card, it would stimulate sales.

I'm just being the devil's advocate, because actually I'm sympathetic to your concern, but I think the problem you have is that the issue — correct me if I'm wrong — is that they want to be able to use that float and the credit card to give them credit to buy this thing so they get a chance to turn over their stock before they really have to pay the bill. What is happening is I think philosophically that's something the LCBO has a problem with. Secondly, they have the cost of what they have to give up to Chargex or Visa or whatever it is. I would think that with the Mondex system you'd have no trouble at all. That's a cash business. You want to pay by Mondex? Be our

guest. That I don't think solves the problem of the restaurateur. I'd like to get your comment on that.

The other thing that I'd like to comment on is you mentioned that you would like to see normal commercial credit. I think that's a non-starter. I'm sure you'll admit that the restaurant industry probably has one of the highest failure rates of any commercial enterprise and for a public entity like the LCBO to get involved in extending credit where there's going to be a good chance that they're going to have a pile of bad debts, I just don't think that's on.

Mr Oliver: I quite frankly don't think commercial credit is a starter either. That was the idea actually under the previous government. When credit cards were extended to retail customers, the minister at the time committed to allowing licensees to use credit cards. The LCBO's response was, "No, we'd rather give them commercial credit." We said, "Maybe that's not the best management decision," but that was the view they wanted to do. We think it was more designed by them to delay or to create smokescreens, whatever.

Relative to credit card purchases, about 1.4% for a credit card processing fee is what Visa or MasterCard charges. Those savings can actually be brought forward by reducing the number of people you have to have manually processing cheques at the LCBO, by the number of people you have to have picking up those cheques, and more importantly, the number of orders made by licensees will decline substantially. You now have a lot of licensees ordering, "I'll have one bottle of Scotch, two bottles of wine. Oh, I've got a big dinner party, make that three bottles of wine," and they're making these orders on a day-to-day basis. If you made a threshold and said, "Okay, all orders over $1,000 could be put on credit cards," the person is encouraged to take a month-long purchase of maybe 10 or 15 different purchases, where 10 or 15 different staff people from the LCBO are required time-wise, compress it into one purchase, one delivery. The savings there become far more than the 1.4% it costs to process a credit card.

Mr Kwinter: I notice that you haven't mentioned it at all in your presentation this time but it's something that has come up a couple of times and I know you have a very strong position on it and I think it would be useful to get it into the record. We've had the Canadian manufacturers' and exporters' association advocate a blended GST and PST. We've had the agricultural sector doing that. I know that you don't exactly have that point of view and I think it would be useful if you responded to that just so that we would have it on the record.

Mr Oliver: Our industry, our federal association, the ORA, as well as every provincial restaurant association across Canada, as well as the industry at large, have been opposed to the harmonization of the GST and PST. They've strongly opposed it in the Maritimes because of the cost transfer to the customer. Our industry suffers when that happens. It not only increases the retail price of a restaurant meal or a basic food purchase, but more importantly, it creates a greater difference between ready-to-heat food that's in the grocery store and heated food that's in the restaurant, that's being delivered to your front door.

Most of all, it reduces disposable consumer spending because as the GST and PST are expanded to services, household heating, all the necessities of life, the reality is that our customer or the consumer at large simply has less money at the end of the day. If their total spending goes down only 1% as a result of a blended tax, because we don't get true flow-through in all cases, then the disposable income or disposable expenditure probably goes down 4% to 5%, and that comes straight out of foodservice sales. We saw sales for the restaurant industry when the GST was brought in decline greater than the 7% that the tax was itself.

The Chair: Mr Oliver, we appreciate your attending the committee and your presentation today. Thank you very much.

CANADIAN MENTAL HEALTH ASSOCIATION, ONTARIO DIVISION

The Chair: We now welcome the Canadian Mental Health Association: Ruth Stoddart, Glenn Thompson and John Kelly. Welcome to the committee, ladies and gentlemen.

Mr John Kelly: Thank you very much, Mr Chair. Just as an aside, I might make a comment after the last presentation that we'd like to move your thoughts from food to food for thought.

My name is John Kelly. As the past president of the Canadian Mental Health Association, Ontario division, I am pleased that you have provided the opportunity for our organization to make a presentation to you concerning the 1997-98 provincial budget.

I would like to introduce to you Glenn Thompson, our executive director, and Ruth Stoddart, who is the manager of policy, planning and development at our provincial office.

The Canadian Mental Health Association, Ontario division, known as CMHA, is an incorporated, registered, non-profit charitable organization chartered in 1952. Approximately 4,000 volunteers are active in direct, board and committee service in a network of 36 branches located across Ontario. CMHA, Ontario division, and its branch services and programs are funded through government grants, local United Ways and supplementary fundraising activities.

Since our founding, the CMHA, Ontario division, has made significant contributions to the development of mental health policy in Ontario. We have consistently advocated for community mental health services which would allow individuals with mental illness to remain in their home communities, close to their families and other natural supports.

In each of our pre-budget submissions over the past several years, the CMHA, Ontario division, has recommended that a central target for the government be the reduction of the provincial deficit. It is our view that major transformational changes are still required in the health care system, especially in that part of the system with which we have the most experience, the mental health system.

We believe it is important that the government and this committee have a conceptual framework within which the

potential impacts of the 1997-98 provincial budget may be examined. The New Framework for Support document prepared by the CMHA national office provides that frame of reference. This document has been widely circulated and is in active use in other parts of the world. A copy of the community resource base portion of the framework has been attached to our submission as appendix A.

The New Framework for Support indicates that to live a fulfilling life in their community, persons with a psychiatric disability need more than the formal mental health services provided by hospitals, community agencies and private practitioners. They need to have at least the same opportunities to access basic socioeconomic support as other Canadian citizens, namely, "jobs or other productive activities, good housing, appropriate education and adequate income."

Dr Fraser Mustard and others have argued that traditional health care may contribute 25% to a sense of wellbeing for the average citizen, while 50% of our sense of wellness comes from socioeconomic conditions. The prospect of job loss, with the potential of no longer being able to afford decent housing, adequate food and other necessities and reasonable educational and recreational opportunities for oneself and one's children, is a frightening prospect for most people.

1710

For someone with a serious mental illness, the situation is especially daunting. Not only can their illness separate them from basic socioeconomic necessities such as the ability to work or maintain a home, but the lack of those necessities in their lives has a direct and damaging impact on their mental health and thus their prospects for recovery.

The community resource base contained in the framework document demonstrated the ideal range of resources that should be available to persons with serious mental health problems if they are to live a fulfilling life within the community. The basic socioeconomic conditions of income, housing, work and education make up the foundation of this model. If people with serious mental illness do not have access to these fundamental supports, their ability to benefit from other services available to them is severely diminished.

Use of the framework model will ensure that decisions are made which facilitate the integration and coordination so needed to improve mental health care. We encourage the government to ensure that the 1997-98 provincial budget includes provisions which provide the authority and impetus for positive change for the mental health system in Ontario.

I would now like to turn to Glenn Thompson, who will present our views concerning the mental health reform process in Ontario. Ruth Stoddart will then summarize the advocacy activities of our organization in several other areas which are of great importance to persons with mental illness.

Mr Glenn Thompson: Mr Chair and committee members, it's good to be here with you again and to have you spend a little time to give attention in a budgetary sense to mental health issues and problems. I want to touch on four different areas in my remarks and I'll be fairly brief so that we'll have an opportunity for Ruth to speak and for some discussion, I hope.

I think the important thing to recognize in the mental health area relative to other health problems we have in Ontario and indeed in society generally is the very high incidence of mental health problems relative to the expenditure on mental health, so that surgery and many other kinds of mental health care of course traditionally have gotten a very high level of attention, as they should, but we haven't given the proportionate attention in dollar terms and generally in social terms to mental health.

We'd like you as legislators to think about that imbalance within the system. This is not a plea for more money to be spent but for the balance of expenditures within the health system to be rebalanced and sorted out. Indeed, that's happening this very day in some of the dramatic changes that are happening through the instructions of the Health Services Restructuring Commission.

Underfunded relative to need, I guess I would say, imbalance within the system, having an institutional bias. I worked, some of you know, for a long time in the correctional services system here in Ontario. Ontarians have a great attraction to institutions, it seems, and we've had that attraction certainly in the health system generally. That bias is shifting day by day now through the work of the Health Services Restructuring Commission and we applaud that.

At the same time, we're more than concerned that in a budgetary sense the transfer of resources to community mental health programs, which is our concern, happens, because if it doesn't happen we'll have a repeat of some of the difficulties of earlier years when psychiatric hospitals were closed and the follow-up care didn't occur in communities and great tragedies occurred as a result of that.

There seems to be every evidence of good intention certainly in the Health Services Restructuring Commission reports in that regard, but they can only order the shifting of resources in the hospital side and recommend what happens on the other side. It's more than important that you as legislators try to ensure that other follow-up activity in a fiscal sense occurs because if it doesn't, we'll be back here, all of us, year after year lamenting what we did in 1997 in terms of major hospital downsizing, and certainly from a mental health point of view we will.

I'd like to say as well that there's now a very rapidly growing amount of research available in our field that suggests that if we don't attend to early childhood development, we pick up the pieces later on in all sorts of human service areas, from correctional services, where I once worked, to the mental health care system. That seems so self-evident to any of us who deal a lot with children or who have children in our own families. But in terms of the proportion of expenditures, we haven't attended to that area very well.

Again I say this is not a plea for more money to go into the health system, but for a rebalancing of that and a consideration of the money we spend on children's services, from the education system through the mental health system, to say, are we spending the money within the health system and within the child care system in the

right way, in the right proportions? Probably not; for sure not, I think we would say.

Just to give you a few of the actual mental health numbers that might be sort of riveting to you, if you haven't heard us say them before, it really is surprising to most people that one in five of us in our lifetime will suffer a serious mental health disorder and that one in five people in Ontario between the ages of 15 and 64 in any year will suffer some sort of mental health distress. A very high number of us suffer those kinds of difficulties, just as we do many other kinds of health care difficulties, but we tend to not attend to that area very well and most of us keep those events in our families and in our personal life quite a secret compared to incidences of other kinds of illnesses.

Approximately 118,800 Ontarians suffer from a severe mental illness which may chronically impair their ability to function in day-to-day life. Mr Kelly has indicated the kind of community support model we see as most effective in trying to balance income support, employment, actual mental health care and the other supports people need.

In Ontario, about 1.8 million days of productivity at work, home or school were lost per month by people with mental disorders. This number is nearly twice the number of days lost by an equal-sized group of the healthy population. So you can see the costs in society if these problems perpetuate themselves and aren't given early enough attention.

About 986,000 informal caregivers, that is, family members and friends, provide care to, among others, people with mental illness. These caregivers reported higher rates of mental and physical disorders than non-caregivers. So the impact on families who are the caregivers themselves more than half of the time is quite dramatic.

As you can see from the foregoing data, we have a very high incidence of need in the province. We have a high incidence of expenditure, as you well know, in the health care system, with $17.8 billion being spent on health care, nearly 30% of the government's expenditures. But in terms of the expenditure on mental health, excluding OHIP services, that runs at about 3.6% of the total provincial health care budget. Is the balance there the one that you would ideally see in terms of need? We don't think so.

In 1995-96, approximately 75% of the mental health budget was spent on institutional care and 25% on community services. As I've mentioned, the Health Services Restructuring Commission we think is moving rapidly to change that imbalance and we'll have to be attentive.

In 1992, in a survey we did, over 34,000 active registered clients of ours were being served in community health programs on the survey date. Over 50% of housing, social rehabilitation, vocational and case management programs had long waiting lists during that time. These programs in the community had a majority of their clients who were much the same as those individuals who were in provincial psychiatric hospitals.

Our submission to you is that most individuals who are in need of psychiatric care can be handled in one form or other of psychiatric care in the community, nearer to their homes and certainly equally economically, and often more so.

1720

Much has been done in the Putting People First document to move mental health reform ahead, and I'm not going to recite all of that to you. The Ministry of Health talks about it in its 1996 business plan. There's a major plan available to be implemented, but we're five years into that 10-year plan and we're going very slowly. The shift of dollars isn't happening at the rate that it was intended to, and while the Health Services Restructuring Commission is going to give that an infusion, we're way behind in the kind of moves we should have been making and could have made much more rapidly. I'd ask you to consider those needs and the potential for accelerating them as you look at the budget for this year.

In terms of the provincial psychiatric hospitals themselves, each one of those costs about $40 million to operate, and so the available funds to shift is quite substantial and we're encouraging that those funds be put to good use in the community.

I'm going to stop at that point. I think we've made the point of need and of potential to shift. Ruth Stoddart now can follow up with some of the particular advocacy work we're doing.

Ms Ruth Stoddart: Mr Chair and committee members, there are various items listed in the written submission we've given you dealing with some of the areas where we do a lot of advocacy work. There were two I wanted to touch on particularly today.

To begin with, it was almost exactly a year ago that I sat in one of these committee rooms and made a presentation concerning Bill 19, which was the bill that repealed the Advocacy Act and changed the substitute decisions and consent to treatment legislation. At that point, our organization said we were very concerned about the lack of any sort of independent advocacy services available for vulnerable adults; over a year ago, and that's still the situation. There are no independent advocacy services for vulnerable adults, with one exception, that being the advocates in the psychiatric hospitals.

As the government continues to downsize services and decrease such things as social assistance and get out of housing and various other things, we believe it's going to be increasingly important that people who have trouble making their own wishes and needs heard have someone to help them make those wishes and needs heard. We just wanted to reiterate once again that we think there are three very important advocacy functions that should be carried on by some sort of independent body in this province, the first one being rights advice, so that people know what their rights are and can act on them; the second one being individual advocacy, to help people who have trouble with their landlord, who have trouble getting social assistance, all those others things; and finally, systemic advocacy for system-wide issues that create a lot of problems for people. I think that once some sort of independent advocacy system is in place, people could be helped to help themselves and wouldn't in a lot of cases have to rely on more costly services.

The other thing I want to talk about that's of large concern to our organization is changes to social assistance and income maintenance programs. Just to give you some more numbers, 1994 stats from the Ministry of Community and Social Services show that there were about 717,000 people receiving family benefits allowance at that point in time, and of those 717,000 people more than 16% of them were getting benefits because they had a disability. Of the people who were disabled, 25% of them reported having a psychiatric disability and that was the reason for collecting family benefits allowance. Right now the CMHA is quite concerned because there are various initiatives going on both federally and provincially that may change people's entitlements or the availability of various types of income maintenance or social assistance programs.

Quickly, federally, there were reports in the newspapers last week that Canada pension plan changes are going to increase the amount of time someone has to work in order to get disability benefits. On the provincial side, changes to workers' comp legislation may prohibit any kind of compensation for chronic stress claims. Finally, the Ministry of Community and Social Services has plans to change what is presently the general welfare assistance program into the Ontario Works program, and the family benefits allowance to — I think the last name we heard was the income support program for people with disabilities.

There are concerns with all these programs, both federally and provincially, that the definition of "disability" is being narrowed and that in an attempt to save money with these programs people are not going to be eligible who would previously have been eligible.

The final announcement from the provincial government in January was that fiscal responsibility for social assistance is going to be cost-shared 50-50 with the municipalities. This has caused even more concern in that if municipalities are unable to fund various services, those services could become substandard very quickly and possibly, in the worst-case scenario, unavailable. We just want to urge the government to consider the needs of people with serious disabilities and vulnerable people to receive such things as social assistance or income maintenance programs.

In particular, people with mental illnesses, their illnesses are often cyclical in nature. They're able to work at various times and not able to work at other times. Certainly the economy is better off allowing people to work when they are able to work and not narrowing eligibility criteria or definitions so that those people are forced, in order to get benefits part of the time, to be declared eligible for benefits all the time and not be able to work at all. I'll turn it back to John.

Mr Kelly: I'd like to leave you with four important thoughts: The CMHA, Ontario division, supports the principle of deficit reduction; the government's key goal should be to preserve the protection afforded to the most vulnerable in our society; there should be a single point of accountability within the government for children's mental health services; and finally, in order to maintain the overall health budget at $17.6 billion and retain the mental health envelope, there must be efficiency and economy in spending, and the reallocation of funds from institutions to the community should occur. Thank you, Mr Chairman.

The Chair: That leaves us with time for a quick round of questions from all parties, about a minute and a half.

Mr Wettlaufer: Thank you all for coming today. I have a great deal of interest in mental health. My own area is severely underserviced in this respect. You have suggested in a couple of places — let me just find it; I highlighted it while you were going through it. "The CMHA, Ontario division, is concerned that without immediate emphasis on data research and evaluation, fiscal restraints may be implemented with the goal of short-term monetary and economic gains rather than improving the health care system." I don't want this to sound critical. Do you have evidence that this is going on?

Mr Thompson: There is no doubt that there is a lack of adequate data in the field, and that certainly makes everybody vulnerable to decisions that are not necessarily going to be the best ones. In the mental health field the Ministry of Health has tried on various occasions to put together a data system, not very successfully so far, but they're at it again, fortunately, and I think that will help us in our field anyway to make decisions in a much more businesslike way.

Mr Kwinter: I want to ask you a question about the funding. The minister uses the figure $17.4 billion, your document says $17.8 billion and you just said $17.6 billion. It's somewhere in that range. The government has said that they're going to maintain this level of funding over the next four years. What they don't take into account, I don't think, because if they do, they have a problem, is that we've heard that inflation in Ontario is going to be about 2% a year, so you compound that, which means that every year you're getting less real money; you have a situation where the population is growing fairly dramatically, so that gives you less money; and you have a situation where the demographics are changing quite dramatically in that we have an aging population, and the aging population draws far more on the health dollar than the younger population.

All these things compounded will mean, notwithstanding that the government likes to say they're maintaining the funding — they're maintaining the dollar amount but they're not maintaining the funding, because every year they're providing less per capita for the people of Ontario for health care. Do you agree with that or do you feel that's a problem?

1730

Mr Thompson: It's a problem that people are moving quickly to try to counteract by shifting out of the more expensive resources into community services. I think there's a move in the right direction to use the money better.

Mr Pouliot: You ought to be in the diplomatic corps, you're so nice. I fully agree with Mr Kwinter. If you spend the same money, you spend less per capita because of the reason — it's so clear — that if you have more people, you spread the dollars available a little thinner, and as the population ages also.

You come here and say, "Look, you see our end. Don't forget us. We don't have a very strong voice." When you use words like "poor," "vulnerable," "challenged," "advocacy," "minority," you must be aware that there are people who can run faster than that, that deliberate and systematic choices have to be made, that there is some emphasis. You either give more to these people, you reward, and therefore you don't kill, but you give less to another group. If you have a $5-billion tax cut over four instalments, somebody will pay the price. If you cannot defend yourself because you're challenged, if you're not rich, if nature forgot a little bit about you, if your circumstances have changed your lot, you can expect to be deprived, to pay. If anyone else says, "I will pray for you — "

The Vice-Chair (Mr Tim Hudak): Your question, Mr Pouliot?

Mr Pouliot: I'm coming to that; thank you, Chair.

When I do that, that's all I do, you see, and I want to wish you well. Do you feel confident that the needs of the people you represent, which are the most acute, will be in short order addressed by this government during these days of a recovery? What do you think your chances of success are?

Mr Thompson: I guess I'd comment that when I was a young fellow growing up, people in the village I grew up in in Ontario wouldn't use the word "cancer" because there was such a negative attitude about it — amazing in the 1940s. I think probably in the 10 next years we'll see a shift, just as there has been with some of those illnesses, about mental disorders, so that people will be much more open and accepting and less stigmatizing.

The Vice-Chair: Thank you very much for your presentations. Have a good evening. We hope to see you again soon.

ONTARIO GOOD ROADS ASSOCIATION

The Vice-Chair: The 5:30 deputation is from the Ontario Good Roads Association. I believe Ms Richardson and Mr Merrall are here. Good evening, folks. Welcome to the standing committee. You have 30 minutes with us.

Mr Denis Merrall: Good afternoon. I'm Denis Merrall, and with me is Sheila Richardson. I have recently been elected as president of the Ontario Good Roads Association, and I work as county engineer for the county of Middlesex. Sheila is our long-serving executive director.

For those of you who are unfamiliar with OGRA, let me say that it is the largest municipal association in Ontario and represents the roads and transportation concerns of over 750 municipalities across our province. Our members range from large urban regions to small rural municipalities. Our board of directors is comprised of eight elected representatives and seven senior municipal staff. Our annual conference — this was our 103rd — concluded at noon today. It was attended by over 1,400 municipal delegates from Ontario, and these delegates gave us a clear message to bring to you today.

OGRA has appeared before this committee on several occasions, each time coming forward with concerns and suggestions for your consideration in the pre-budget consultation process. Keeping in mind the general direction the current government is taking, we would like to offer the following comments for your consideration.

We know that the funding and administration of the provincial transportation system has changed. OGRA has come here today to offer recommendations on additional changes that we believe are required to allow municipalities to effectively meet the transportation needs of Ontario's economy and its residents.

A major issue we are bringing forward is that of highway transfers. As recommended by the Who Does What panel, the provincial government plans to divest itself of an additional — and we're estimating — 3,000 to 4,000 kilometres of roads that are to be deemed to be of local interest. We would like to be part of the team that sets the criteria that will determine the highways to be transferred. We'd also like to know whether the transfers will be completed all at one time or whether they will be staged over a longer period. We would like to see financial forecasts on the anticipated capital and operating expenditures that will be necessary to maintain the adequacy of the transportation system. Let's set aside the funding issues and contemplate the future of our economy and the part roads will play in it.

Provincial roads that become local roads will predictably and inevitably fulfil local needs. As the number of local trips increase, so too will the travelling time, with the result that the traffic-carrying capacity of the road will decrease. Yet there's going to be no alternative route, no provincial two-lane highways to provide faster travel. Once completed, and I emphasize this, the transfers will leave less than 10% of Ontario's roads in the provincial highway system. Our membership will be responsible for 90% of Ontario's roads that provide the services to our people and our economy.

Much has been both written and spoken about the costs of congestion and cost of disrepair of our roads and bridges. Believe it.

Ontario's businesses require an adequate transportation system to move both raw and finished products. A congested transportation system in poor condition results in insufficient capacity, increases the cost to move goods and thereby decreases productivity and competitiveness. Neglect of roads increases the amount of congestion on the existing system that costs much and produces nothing but frustration. The end user has to pay for these costs and receives no benefit. They must also witness the reduction in competitiveness of Ontario's business sector.

A neglected road system adds to the costs that road users must bear through additional wear and tear on their vehicles, which results in higher vehicle maintenance costs. There is also an increase in fuel usage, which affects the environment by depleting our resources and polluting our atmosphere. Without a good transportation network, it is much more difficult to attract new business and in some cases to retain our existing business. A safe and seamless transportation network is also vital for other services such as ambulances and school buses.

I want to also address the Who Does What panel recommendation that was not accepted by the government. It says in part: "[M]unicipalities should be given access to a new revenue source, such as a portion of the

gasoline tax, to help offset future maintenance costs. This would give municipalities greater control over land use and development along these roads."

The provincial government points to the removal of education funding from the residential property tax as providing tax room to free up municipal tax revenue for expenditure on infrastructure and to pay the municipal share of the provincially mandated income redistribution programs, as well as the additional services that will now fall within our expanded mandate.

The government has also stated that revenue from parking and speeding fines will help offset the increased cost to municipalities, as will access to the proposed community reinvestment fund and the capital and operating fund.

1740

The community reinvestment fund and the capital and operating fund will be available to assist municipalities with their new responsibilities and with transition costs. It seems to us to be a return to supplementary funding. Obviously, large capital projects such as bridge replacement cannot be financed from the property tax of smaller and rural municipalities and extraordinary funding will be necessary. It does, however, put municipalities in the position of coming cap in hand to request funding. OGRA recommends that municipalities be provided with a long-term financial commitment in the form of allocated provincial fuel tax revenue.

OGRA believes that a dedicated, responsive and consistent source of revenue is required by municipalities to allow them to maintain the public investment in our infrastructure. We further believe that such a source is an appropriate portion of fuel tax revenues and/or other sources of revenue that relate directly to the usage of the transportation system, and that revenues from transportation user taxes should be invested in the municipal transportation system.

The Ontario Good Roads Association strongly supports sustainable expenditure on the operating and capital programs of our transportation systems. Municipalities are currently finding themselves with many new responsibilities and municipal budgets will reflect these changes. The fact that the province is removing itself from direct involvement in the municipal transportation network does not reduce the provincial importance of the municipal transportation system.

Ontario's transportation system represents a major capital asset. By not performing needed maintenance activities today, we create future public indebtedness. Inadequate maintenance of roads and bridges erodes the value of the public asset and increases the future liability, wherein costs increase exponentially if maintenance is not done at the correct time. A dollar not spent today on maintenance becomes hundreds of dollars when reconstruction becomes necessary due to lack of care. Spending on transportation infrastructure has declined substantially over the last several years and is no longer meeting Ontario's transportation needs.

The long-term financing of Ontario's transportation system requires stability with a comprehensive and multi-year plan. OGRA is recommending that to accomplish this, a joint provincial-municipal task force be struck. The first issue will be to determine the sources of revenue to be made available to municipalities. The task force must also determine the total level of funding that our infrastructure network requires and must also determine the formula that will guide the distribution of funds. It is OGRA's recommendation that the formula be based on a life-cycle costing model for infrastructure.

As well, the responsibility of the federal government to maintain the health of our national highway system needs to be advanced by the province to the federal Minister of Transport. I am encouraged that the province is close to negotiating its participation in the extended tripartite infrastructure program. We urge this program be targeted to transportation infrastructure projects.

We want to thank you for this opportunity of appearing before you. We know your job is not an easy one, and we wish you well in your deliberations.

The Vice-Chair: That leaves us with about five or six minutes per caucus for questions, beginning with the official opposition.

Mr Kwinter: In your presentation you say that when this transfer of roads is completed, the province will be left with about 10% of the roads. I would assume those are the 400 highways and the Trans-Canada Highway and virtually everything else will be transferred to the municipalities. Is that about it?

Mr Merrall: We haven't seen the final list — I understand the list hasn't come out yet — but we have seen some preliminary maps the Ministry of Transportation has done to look at their future strategic planning.

There still would be a number of two-lane roads that I saw on the map, such as Highway 6 up to Owen Sound or Highway 10, but yes, this will leave major holes in the provincial network in Ontario — not holes in the road network, naturally; there'll be somebody left there to look after them. But it is a fundamental change in the transportation system for our province.

Mr Kwinter: I met with representatives of the clerks and treasurers association of Ontario and they issued a press release last week — I'm sure you saw it — saying they have no guidelines on which to set their mill rates; they have no idea what these costs are going to be.

When I was the minister for economic development, virtually every town I went to in the north said, "If you could only give me a four-lane highway, all our problems would be over." What happens is that maintenance and repairs on these highways are done on a cyclical basis — they're done three years from now, five years from now — which means when they transfer these roads, some municipalities are going to get highways in relatively good repair and others are going to get highways in relatively poor repair.

Notwithstanding that, has there been any provision made to compensate those municipalities that are going to be given the responsibility of maintaining those roads with a differential in the type of expenditure that will be required for the particular units they take over?

Mr Merrall: We haven't seen anything in that regard yet. We have heard talk just this week about how these two capital funds would be allocated, and we certainly did receive a promise through these first three days that there will be capital funds transferred with the additional

round of highways, but we don't know the details and the extent. The capital is part of it, and there's talk about four-lane highways. We're not talking about four-lane highways; we're talking about enough money to maintain what's out there now. What's out there now is starting to fall apart. Hopefully there will be money.

This one-time funding may be good to help the initial transfer, but we are looking for long-term sustainable. You're right, a lot of roads need a series of repairs, a fairly good rehabilitation, after 18 to 20 years. We need to have a resource so we can sustain these roads to meet the needs of the traffic.

Mr Kwinter: What about the issue of bridges? Some municipalities will be given roads that have no bridges and others will be given roads that have bridges. Obviously, the cost of maintaining a bridge is a lot more than maintaining a road. How is that going to be addressed?

Mr Merrall: We haven't seen that yet either, and again we're hoping that when these things are transferred there will be assets attached. These highways will be a liability, and I hope these capital funds will be considered some assets to be transferred along with them, similar to the divesting of the OCWA plants, where we inherit the assets as well as the debts on them, which are the liabilities. It's a two-fold thing. Hopefully they will get the same connection in this regard.

The bridges are a very big concern. Again, it's a long-term issue. A bridge, as you know, can be a $5-million or $10-million project and the tax base of many municipalities may not support that.

What's happening is that in the definition of what a local road is, for the provincial government a local road is a road that carries vehicles travelling less than 200 kilometres. To me, as a municipal person, my idea of a local road is a road that is used predominantly by people who pay taxes in my municipality. In essence, we have a different definition. We have a lot of people travelling across many municipal boundaries to get their goods and services to their customers. Then there are related issues. If a bridge is a low priority for my municipality but a very high priority for three municipalities down the road, what happens to the economy if that bridge isn't maintained or has load limits and the heavy trucks that are carrying these goods to market or to customers have to take a different route?

Mr Pouliot: Transportation: Denis and Sheila, it's a renewed pleasure. I do miss the annual pilgrimage — well, not really a pilgrimage, but the annual event which is Ontario Good Roads Association. I trust that no one is driving to or from some of the meetings. It's a place where people like to congregate, and I want to wish you well.

You've been the official voice of municipalities in their relationship with transportation. Quick facts: 3,000 bridges, most of provincial jurisdiction; 136,000 kilometres of municipal roads; some 23,000 kilometres of highway, each with its rules and regulations; transfers — without getting a penny of federal money, money that flows from the province to different municipalities to help Harry Smith plow the road and also to help fix the street.

The Common Sense Revolution: It's not a criticism. Times have been difficult. We were during a recession; they're experiencing the good fortune of a recovery. Nevertheless, they see fit to withdraw $300 million out of capital, but that's for highways. The supplementary relationship has been all but eliminated and transfer payments have been reduced. I'm not going to cast the first stone because, let's face it, they have to pay the banker, they have to pay the debt. It's not easy.

1750

They are not getting too much from the federal government. We're the only province who doesn't get a penny from the federal government in terms of the national highway system. It's the Ontario highway system; there's no such thing as partnership. Ontarians also give about $2 billion at the pump, the seven million motorists, and the feds take all. They take their portion and they don't give it back because that's the federation in which we live. That's the reality we face.

The thing is when you listen to people — that's what it's all about — the people I listen to are scared because they don't know; anxiety. The fears might not be justified but they want to know what's going to happen next year, two years from now, three, four years, because they have to go to the taxpayers on January 1. They're saying: "What am I going to do? I can only go to the interim tax levy for so long. At one time I'm going to have to show the cards."

What are the one, two or three issues that the people are most anxious about at this time as you make your recommendation to this committee on the eve of tabling the provincial budget? If you were to say one, two, three, what would you say?

Mr Merrall: They're all the same issue, and that's the sustainability of the system. I think municipalities are willing to take on responsibilities, but the concern is, will we have the resources there to continue to provide the service our economy needs? They're our ratepayers, they're provincial taxpayers; all of us are serving the same people. Our big concern is, will there be enough money there and appropriate distribution of that money so we can continue to provide the services that are needed?

Mr Spina: Thank you for your presentation. I'm glad the former Minister of Transportation addressed the issue of the federal taxes. That sticks in all our craws, I guess.

I just want to give you a little glimmer of hope, by the way, without giving you anything official, because it still has to be incorporated in the spring budget. But I'm parliamentary assistant to the Minister of Economic Development, Trade and Tourism and I know there's a commitment on the part of our ministry to continue with the Canada-Ontario infrastructure program. That will be retained. There will be some continuing involvement of the province with regard to those kinds of things.

With regard to the crumbling infrastructure, I respect your comments on taxation and the amount of investment. I'm also trying to look at it from another perspective; that is, the reason we also have, besides lack of repair, a more rapid deterioration of the road system.

You're an engineer, Mr Merrall, and I'd be interested in hearing your opinion on the GVW of trucks. The gross vehicle weight of this province is the highest in North

America. Vehicles are generally developed or designed for the American market, and you know that the jurisdictions in the US usually do not exceed 90,000 or 100,000 GVW. Ours is 130,000 GVW in Ontario, right? Not only that, they've extended the truck lengths to 90 feet. I believe that happened somewhere around 1988 or 1989. I'm wondering if those extensions made a severe contribution to the deterioration of the road system.

Mr Merrall: There are several contributions to the deterioration. The one thing I've noticed is that our pavements out there are older, a lot older, and things just weather and we are getting environmental damage. I certainly see it. There's nothing on the GVW there.

But there is concern about trucks, and our newly elected second vice-president, Ed Metzler, the alderman for Thunder Bay, just retired from the trucking industry and he gives us some pretty good background. Their problem of course is that they look to hauling out west and hauling in the US. They can't compete in Ontario and they buy trucks to serve the rest of North America.

But what we do know is that to get these high GVWs you have multi-multi-axles. You see them on the 401: six, eight axles. And you notice when they go around a corner they don't steer; when they go around a corner they skid. As an engineer — they just rip our intersections apart. You're talking this heavy weight and you can just imagine that rubber going.

There's another thing that was done to increase fuel mileage. It's one of these green things that's green but not so green. To increase fuel mileage in trucks we developed new truck tires years ago when the high fuel costs came in. We had low truck tire pressures. We've got now truck tires running 130 psi. These truck tires do put far more stress on pavements. These high pressures exist North America-wide.

It was explained to me when we complained about the increased wheel rutting on our pavements that the cost to rehabilitate the pavements is small in relationship to the economic benefit to reduce trucking costs. I guess we can accept that if that's a true analysis, but the trouble is if the benefit goes to one party but the cost of rehabilitating the roads goes on the property taxpayer, that has nothing to do with —

Mr Spina: Or even to all taxpayers.

Mr Merrall: Yes. But you're getting to the point that the people carrying the cost of the load are not the people who see the economic benefit. We really want to get a true economic — and my master's degree is in applied economics as well as engineering. You have to attach the cost and the benefits to the same thing because that's where you get your true efficiencies. Where one party pays the cost and the other party enjoys the benefits, what you'll get is that marginal benefits will be enjoyed where you have great increase in costs.

It may be a true economic analysis that these high tire pressures are the right thing. Certainly I got that message at the Transportation Association of Canada and the Transportation Research Board. I have to accept the analysis of these experts, but somebody's going to have to find a way to deal with the damage costs.

Mr Ted Chudleigh (Halton North): Thank you very much for your presentation. We hear there are only two certainties in life: death and taxes. However, I wonder if an appropriate corollary to that might be that the two certainties are change and the resistance to it.

The transfer of highways has already begun, of course. In my own riding, Highway 25 has been transferred to the municipalities. That highway was upgraded. In fact, the upgrading wasn't actually completed last fall; it was scheduled to be completed, but it will be completed this spring. It was upgraded to provincial standards before that transfer took place. I understood that would be the standard that would continue. The section of Highway 25 north of Milton, north of the 401, was not transferred because there are some standard problems, I understand; that transfer will take place perhaps some time in the future when those standards have been met.

Did you not understand that the highways transfers would take place on this basis, those that will take place?

Mr Merrall: No, we don't understand. In our own municipality we are receiving a number of highways that are not going to be upgraded. We will be receiving a capital allowance for two thirds of those repairs in the first five years, but most of us are receiving highways without repair. We would love you as our member, but we do have a very excellent member so I'm not going to disparage our member.

I don't want to criticize the highway transfers. We've been working with all of the governments on reforming transportation funding, and we're not going to stop working with any government on reforming the transportation system; we're trying to find the appropriate way. Some of that working maybe led to the highway transfers. When I worked with the previous government on disentanglement and we started going into costs, we found that certain municipalities were delivering very high service levels at a cost substantially less than what was being delivered by the provincial transportation system. Unfortunately, maybe that message got through to a number of public servants in the province and they said: "Hey, there's a way to save money. Transfer these highways. If the counties and regions can do it cheaper maybe the taxpayers will benefit." Yes, if you do an economic analysis, the issue is that I'm cursed with the fact that we deliver a very high level of service on our county roads at a substantial cost savings over the provincial highway system.

Mr Chudleigh: The 1996-97 budget for highway repairs was higher, substantially higher, than it has been in the past, however. There is a strong commitment from the province to maintain those highways and bring them back into the condition that Ontarians deserve.

The Vice-Chair: Thanks very much to the Ontario Good Roads Association for your presentation. Have a safe, smooth trip back home.

Mr Merrall: Thank you very much. We always enjoy coming.

The Vice-Chair: Any final business for the committee tonight? Very good. This committee stands adjourned and will reconvene tomorrow morning at 10 am, same place.

The committee adjourned at 1801.

CONTENTS

Wednesday 26 February 1997

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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F-31

F-31

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Standing committee on finance and economic affairs

Comité permanent des finances et des affaires économiques

Pre-budget consultations

Consultations prébudgétaires

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 27 February 1997

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Jeudi 27 février 1997

The committee met at 1003 in committee room 1.

PRE-BUDGET CONSULTATIONS

RETAIL COUNCIL OF CANADA

The Chair (Mr Ted Chudleigh): Thank you all for being prompt.

We welcome the Retail Council of Canada, Elizabeth Mills and Peter Woolford. We're pleased you could join us today. If you'd like to make a presentation, we will fill any remaining time we have in the half-hour with questions.

Mr Peter Woolford: It's a pleasure to be here before the committee again. I would like to note especially that Elizabeth has joined me this year. She is the author of our submission, and quite remarkably, for Retail Council, it actually has some solid data and numbers in it for the first time this year. We've been building a research capacity in the trade association for the first time so that instead of just coming and telling a story, I actually have a few facts to back up my arguments, which is always a nice feeling for a lobbyist.

It is a pleasure to be here and report that for the first time in about six or seven years I have a slightly more positive story to tell you about the retail trade this year. As everybody knows, retailing has gone through a very, very tough period in the first part of the 1990s. Just how tough started to become clear as we gathered our data for this year.

The economic review starts on page 2 of our submission. I draw your attention to it. What is interesting is that in addition to retailing in Canada having gone through a period of slow growth, restructuring, downsizing, job losses, tough competition and all those things, Ontario did worse than the national average, and this is a measure of five or six lost years in Ontario.

If you look at the paragraph at the bottom of page 2, we note that Canadian retail sales grew by just a little over 17% in the period of 1990-91 through to 1996, whereas Ontario's grew by only 14.2%. It's important to remember in this that Ontario comprises nearly 40% of the national average, so that is a measure of just how much Ontario fell behind the rest of Canada over this period of time. It's partly a measure of the restructuring the Ontario economy itself was going through, but in our view it also reflected an economy that was essentially very unattractive, was going through some very difficult times and was not a place where consumers felt confident, where incomes were not being seen as being at all secure and where people did not have a lot of confidence for the future.

Our sense is now that those very tough times are moving behind us. That is not to say that the retail trade is going to boom ahead, by any means, but we are slightly more optimistic about 1997 and beyond. Our sense is that this year we will see a continuation of the modest but positive growth we saw just over the Christmas period of 1996, and we are hopeful that will perhaps even strengthen over the course of the year.

The key to this, as Elizabeth will explain, is in getting job creation back up and in getting that sense of confidence back in the consumer. We feel there are tentative signs of that now in the housing market and in some of the other aspects of the economy that are final domestic-demand driven. That suggests to us that there is some hope for this year. Again, I would stress that it is not going to be a period of strong growth but at least a period of fairly solid, stable, non-inflationary growth, which is good news.

I have just a couple of quick remarks in terms of policy advice, and then I'll turn it over to Elizabeth for some slightly more detailed comments.

We do not have any specific policy items this year. We have been working very closely with the government on a number of its major initiatives and feel that our views have been very adequately expressed there on things like the health and safety area, workers' compensation and the restructuring of many of the spending programs in the province, and so we feel that this is not a place to reiterate all of that.

We believe this administration has embarked on a long-term changing of direction of the role of government in Ontario. We believe it is right for the long-term health of the province. Our principal advice is: Stay the course.

We recognize that in doing that, there are substantial human costs involved, and our members see those costs. They see those in the cautiousness with which many citizens are spending in their stores. They see it in the care with which people are still shopping. We are very sensitive to the effect of fiscal drag, to the effects of the uncertainty that public servants at all levels feel through a period of painful and profound restructuring of the way governments do their job in Canada. But it is a necessary, long-term change in the way the province operates, and we feel that the government should continue to pursue those directions. It is necessary for the long-term health of Ontario.

I'd like to turn it over to Elizabeth now for some more comments.

Miss Elizabeth Mills: We've actually had an opportunity to put together a picture, which I'm just going to briefly highlight for you and touch on some of the economic indicators that we've been monitoring for about

a year now. That will give you a sense that fills in some of the detail that Peter in his story-line has presented to you this morning. I'll quickly walk through the submission.

Ontario retail sales, as Peter has mentioned, represent about 36.2% of the total retail sales for the nation. In Ontario last year that meant the size of the Ontario retail trade was $78.4 billion. I think the important point here is that this kind of growth and the measure of the Ontario retail economy is still continuing to lag behind Canada's performance.

Canadian retailers employed 1.3 million people in 1996, and that was a 3.4% increase. This is good news. Ontario retail employment, by comparison, was stagnant. In fact, we only grew by 0.04% over the previous four-year period.

1010

Ontario employs 37.7% of the total Canadian retail employment base, and in 1996 Ontario retailers provided 519,000 jobs in Ontario. This is a decline of 1.7%, which translates into 9,000 fewer jobs in this industry. Total average weekly payroll in retail, however, grew by 6.2% in Ontario last year and 1.9% in Canada. Average weekly earnings for Ontario retail employees grew by 2.9% in 1996.

We know that our costs are up and growth is down in Ontario, and the Retail Council recognizes that slow growth means lower employment. In 1996, as we've noted above, Ontario's retail weekly payroll increased and growth in employment was lower than in Canada. We have to ask the following question: Did higher minimum wages affect employment patterns in Ontario during the past four years?

The Canadian consumer continues to feel shell-shocked from the early 1990s, and "cautious optimism" are still the watchwords for the industry. The consumer continues to be influenced by major factors such as job insecurity and increasing consumer debt load. This increased sense of uncertainty makes them hold off on purchase decisions.

Lower interest rates used to virtually guarantee an instantaneous increase in consumer spending. This is no longer the case. More likely, our boomers are moving their freed-up capital into their mortgages and their RRSPs. The aging population in Canada is also starting to spend more on services than goods. This marked fundamental shift from discretionary purchases to debt reduction and retirement savings is a developing trend that the retailers have noticed for the past four years. In 1997, replacement spending will substitute purely discretionary spending growth, and therefore we expect relatively low rates of retail growth again this year.

The still soft domestic Canadian economy, low inflation and the ongoing success of government in fighting deficits also means that little is expected to change in interest rates this year. Essentially, depressed consumer purchasing power has suppressed retailers' ability to raise prices. Indeed, consumer prices increased only 2% in 1996, a fourth consecutive year of minimal growth and change, and we expect only modest fluctuations in inflationary pressures in 1997.

In 1996, we also had an opportunity to conduct an independent merchant survey of members across the country and in Ontario, and I'd like to report on some of those findings.

In 1996, retail sales volumes were characterized by very small increases up until the fall. The 1996 Christmas season was positive, with a 4.5% growth in total sales over 1995 for the same season period.

Our survey results provide some additional positive feedback: 68.3% of the independent retailers, the small merchants, in Ontario who responded to our survey indicated that their sales were the same or better than in 1995. The average increase in sales reported by respondents in Ontario was 5.6%, almost directly related to the expectations that they had indicated in our pre-Christmas survey.

Notably, 49% of the Retail Council's respondents to the survey indicated they had to plan major promotions for December to achieve those sales, however. These unplanned sales promotions were required to drive the sales results. The results of these promotions were obviously successful but represent the extra efforts retailers are needing to achieve.

Respondents to the same survey also provided the following thoughts on Boxing Day, the new legislation that was introduced this past year just in time. Independent retailers found, on the whole, that they were choosing not to open for business or finding that it was going to have no impact at all. Canada's large retail chains, however, were open for business on Boxing Day and enjoyed tremendous sales results.

The Retail Council has endorsed the commitment this government has made to competitive regulation, taxation and sustainable government. You have done so through many of your restructuring initiatives, and we hope that you will continue to move along these lines.

In terms of your fiscal performance, we are pleased that you have been able to more than achieve your targets set out in last year's budget, and yet our deficit will still remain a significant 2.5% of GDP in 1996-97. Six other provinces, however, are expected to be in a surplus position this year.

The Retail Council of Canada, as Peter has noted, recommends that you stay this course, continuing to focus on eliminating the deficit by 2000-01, and continue your own restructuring plans for the province and those for municipal governments.

Retailers are aware of the impact this fiscal drag will have on the already underperforming economy, and we are deeply conscious that reductions in government expenditures will result in job losses and less income for some consumers, but we also note that you have limited choice in the matter.

We share your concerns about job creation and Ontario's relatively weak performance in this regard in 1996. Ontario needs new jobs created, but we need them created by private sector companies that provide goods and services.

Your revenues are also projected to decline this year by 3.5%, reflecting ongoing reductions to federal transfers and the impact of the personal income tax rate cuts. Some of the impact of these cuts in Ontario's personal income

tax rates has already been offset partially by the federal government's recent changes to CPP. As a result, the Ontario government should continue its prudent and conservative estimates of revenues and make appropriate contingency plans should these not emerge.

The Retail Council also appreciates the regulatory examination that was undertaken by the Red Tape Review Commission, and we simply encourage you to continue to implement those recommendations on privatization and otherwise.

The Retail Council has been an advocate of harmonization of provincial sales tax with the GST, and we continue to believe that this would mark a major step forward in building a more competitive and economically rational tax system in Canada. Our work in preparing for harmonization in the Atlantic provinces has reconfirmed that this does bring meaningful benefits to businesses. We once again urge this government to harmonize the provincial sales tax with the GST.

One portion of the Atlantic harmonization agreement causes us great concern, however, and it is the requirement that retailers include the new tax in the price of goods. We strongly advise that this requirement not be part of any deal this government might proceed with with the federal government, unless there is a single tax base, rate and administration throughout Canada. The legislated tax-in pricing in a system where the tax rate or base varies among the provinces essentially balkanizes the country into a number of smaller markets, which means we are all operating at higher costs. These extra costs greatly outweigh any savings that could be gained from harmonization.

In conclusion — and we then welcome your questions — this government has begun to remedy the causes that led Ontario to be seriously out of competitive position in the 1990s. Given their closeness to the consumer, no industry is more aware of the pain that these conditions are causing the citizens of this province than retailing. None the less, RCC believes the government has no option but to continue its efforts to get the provincial deficit down and, ultimately, to attack the accumulated debt.

Mr Monte Kwinter (Wilson Heights): Thanks for your report. As you say, this year you've added some meat to the bones; that's welcome.

I want to pursue a couple of things with you. One of the things that happened was that there was a report out, commissioned by Ernst and Young, done by Angus Reid, that says that optimism is waning and that only 27% of Canadians said they were optimistic about their financial outlook for the year. This is down 8% since the release of a previous study in April 1996. They go on to say that there was some clear evidence of consumers being happier and spending in the fall and Christmas season but now some people are starting to feel the economy may have topped out.

Have you found that in your studies? I have friends who are very involved in the retail sector, and they're saying that Christmas was pretty good, relative to what it has been. It wasn't great, but compared to what it has been, it wasn't too bad. Do you feel that there is a topping out?

Miss Mills: In our commentary, it's certainly not a question of a view of the topping out. In fact, what we feel that reflects is perhaps the restructuring that is about to occur at the municipal level. Those are larger, labour-intensive employers, who are also going to have to lay off people and change the way the economy in that portion of the public sector works. Those people are concerned about their jobs and concerned about what they'll be able to spend this year. If there's a dampening effect in Ontario, it's certainly related to the anticipated restructuring that's going to occur in that portion. Ontario's public sector went through that in 1996, and the economic drag that we felt was created by that is now declining, but we do anticipate that drag will continue for the other portion of the public sector for this year. That's probably a reflection of that.

1020

Mr Kwinter: I noticed in the paper today an article saying that the government has realized in excess of $1 billion in gambling profits. Have you done any studies as to the taking out of the economy of those gambling dollars that are going to the government as tax revenues effectively, what that has done to the retail sector?

Miss Mills: We have not, no.

Mr Kwinter: Do you not think it's going to impact on the retail sector? This is discretionary income that is being used for gambling. It's money that could have been spent in retail stores and is going, in effect, to a tax.

Mr Woolford: What we recognize is that the consumer always has a pocketful of money or some money in their pocket. They have to make choices. Gambling has been around in Ontario now for quite some time. Consumers have that option as a place to spend their money. We have noted in our submission that there has been this very long-run shift from consumption of goods over to the consumption of services, and gambling is in effect a service industry. So in that sense, we're not surprised at it. We would prefer, as retailers, that customers buy goods in retail stores rather than consume different services, but it is the consumer's choice, and in that sense we would not necessarily advocate that consumers be prevented from spending their money where they want to.

The governments of Ontario in the past have decided that Ontarians should be given the opportunity to gamble, and that is a much larger public policy choice than one we would feel comfortable making a set of advice or opinions on. In a sense, it's part of the environment that I think our members just have to live within, and I don't think we would feel comfortable saying you should do this or you shouldn't do it.

Mr Kwinter: Just so there's no misunderstanding, I'm not in any way questioning the ability of the government to have gambling. That's a decision that they've made, and that's fine. What I am saying is that if I were in your business and I have to appeal for the discretionary dollar of the consumer and I have a competitor out there — and when you say that they always have money in their pocket and it's a service industry, it's not much of a service, really. It's a service to provide entertainment, but there's a huge amount of money that has not come out of the economy before. The major casinos which are

drawing this money — the new Rama one, Niagara Falls and the two in Windsor — are the ones that are taking this billion dollars out of the economy, and it's only happened in the last couple of years.

All I'm saying is that if I was in the retail business and I knew that my potential customer was diverting that much money, I as an industry would start looking at it. Again, I'm not talking about the morality of it; that isn't the issue. It doesn't matter what consumer competition is out there. I'm saying this is a competitor for your customers, who will have less discretionary income to spend in your stores. I'm just concerned about that.

Miss Mills: That's an interesting observation, certainly. I think one of the other points we'd make, though, is that most of the discretionary spending is on replacements. They're not going out to sort of go gambling or buy the new fridge. It's if I have a little bit of money left over — they have been going for small luxury items this year and last year. They are buying chocolates and flowers. They're not buying new cars yet. They're not buying durable goods in a large magnitude right now. If they have any discretionary spending money, it is going to the smaller luxury items.

Mr Woolford: If I could add something to that, Mr Kwinter, actually, you are on to a theme that we're seeing very strongly in retailing today. Many of the very forward-looking retailers realize that today they are in the entertainment business, that you need to entertain your customer even to draw them into the store. As a result, we have seen, for example, many of the large developers going back and re-examining the mix between entertainment facilities and straight retail in many of the malls, not because they're trying to sort of push retailing out, but they recognize that that entertainment capacity may now be what draws people into the malls.

That's the way the shopper seems to be moving, and it's very much a forward-looking reality, to coin a phrase if I can, that our members feel they're going to have to deal with. They are going to have to find ways of amusing and entertaining and titillating the customers to draw them into the store and to get them to make those purchases. So in a sense retailers are in the entertainment business today as well, just as gambling is entertainment. The whole market really is shifting on us, and we're not sure where it's taking us, to be quite honest.

Mr Tony Martin (Sault Ste Marie): Thank you for coming in today. You've certainly raised some very interesting issues.

I, in my own community, after Christmas usually do a little scout around to see how people did because it's usually an indication of some things for me. Certainly the Christmas of 1995 was desperate. When I went around after 1995, people were in bad shape. A lot of people were actually making decisions about whether they were going to stay in business or not. In 1996 it was a little better. A number of the people I talked to said they did better but still not what they'd like it to be, and there are still some people who are considering whether they should stay in the retail business or not at this particular point in time.

I would suggest to you that the reason 1995 was really bad in my community, and I think that was reflected across the province, was the uncertainty that was out there because of some of what they saw coming at them so quickly re some of the initiatives of the government.

I know in my community, just by way of the 22% reduction in the amount of money being paid to people on welfare, that had a dampening effect of about $2 million a month, which is about $24 million a year, directly out of the retail economy of my community, because that money's spent almost immediately. It doesn't last any more than half a day in the pocket of anybody. It's spent.

The other piece was we did some analysis of the number of jobs that were lost because of the downsizing in government. We figured at that point that we were probably down about $35 million by November 1995 because of the social workers and people in health care and education that had lost their jobs because of the downsizing, and that had a very definite dampening effect.

Then I tried to figure out, well, that's continuing, because we did a study in the Sault that suggested we would, by the time this government's agenda was done, be down a net of between 1,700 and 1,800 jobs. The reason that the retail sector business was up a bit in 1996 had more to do with interest rates and what that did for people and the money they had than anything else.

You're coming today telling the government that they should continue in the direction they're going, which for me, and I'm not an economist, is one of tax breaks and government expenditure reduction. So what you're doing, if I can put it this way, is you're taking money out of the pockets of those who live in communities and who spend it readily — teachers, social workers, nurses — and turning it over to a group of people by way of the tax break — this is a portion of the money — who don't necessarily live in your community and don't necessarily spend it on the kinds of goods that are sold through the retail sector of our community.

At the end of the day, I don't see how that in itself is going to be helpful or positive for the retail sector, and I don't see how, given that that's where we're going, you come here this morning with the kind of optimism that you obviously are exuding and showing in the report that you've made.

Mr Woolford: Certainly I agree with you there is no question that this government has had to make some brutally difficult decisions, and your mention of the decision to reduce welfare rates has to be the standard against which everything else must be measured. That was an enormously difficult decision.

Mr Tony Martin: A brutal decision.

Mr Woolford: A brutally difficult decision. I didn't say "brutal"; I said "brutally difficult."

Mr Tony Martin: Well, it was brutal.

Mr Woolford: It's very difficult for any government to take money away from those who are the weakest economically in our economy, and so in a sense almost any other decision that comes after that has to be viewed in that light. The unfortunate reality is that Ontario was living grotesquely beyond its means and we simply had to do something to get that back under control. That means those very brutal decisions have to be made, and

like you, I'm sure like the government, we don't particularly like making them, but they are necessary.

What we really feel is necessary here as well is a very long-term shift of resources from the public sector to the private sector, that we do need to reduce the absolute size of government activity and move some of those productive resources into private sector activities. That again is a painful, wrenching adjustment, and we don't minimize that at all, but unfortunately it is necessary.

1030

Mr Tim Hudak (Niagara South): It's good to see you again. We did some work together I think on Boxing Day, and that was part of my question.

We heard earlier in these hearings from Patti Croft, who talked about the renaissance of consumer spending, that initially the tax cut was used, in her opinion, to pay down part of consumers' debts, but this year, 1997, she expects it to be injected back into the economy. Finally we're giving consumers a break on their personal disposable income. I'm going to ask you about your expectations in light of what Ms Croft said about 1997 spending and also, since the government moved to allow openings on Boxing Day, maybe there's some long-term adjustment in people's expectations or understanding that stores can be opened on Boxing Day now. How will that affect your sales in the future? Additionally, are there any other holidays that you think should be open for shopping, or are we okay now with Boxing Day?

Miss Mills: You've raised a number of points. I think the return to a Boxing Day status that was here in the province up until 1975 simply reintroduces and reinforces that Christmas continues to be one of the most important seasons for retailing. That never changed. But what you have created now is both a level playing field and a fair playing field that says that if you wish to be open, you can choose to do so, and you can do that legally and not be at a disadvantage competitively from the person who was perhaps opening illegally in the previous years next door.

Our survey results also told a really telling story. A lot of independent operators who chose that they didn't want to be open on Christmas, it was a family day, continue to exercise that. So on balance, the creation of the Boxing Day legislation has provided the right kind of protection to employees and operators themselves.

Economically, we expect that Boxing Day reinforces the Christmas season as being the most economically viable portion of the season for any retailer. Will that continue in the following years? Yes, we do expect so.

With the tax cuts and how people are spending it, we had some commentary provided back to us about how consumers are going to be spending what in some cases is really a modest weekly amount, and for some people they may not even have really seen it so far. If they do have an opportunity to take any of that money, I'm sure they're going to be taking a look at reducing their consumer debt load. It's $485 billion in this country, and that's a lot of money to owe.

But at the same time, I think what you get from that is an attitudinal shift that perhaps can go to sort of bolster and add some optimism back into the economy. My paycheque does not necessarily now look like half of my income is going somewhere else. I get a little bit back and I'm going to get a little bit more back next year apparently, and that's good news too.

So even if there's a sense of reintroducing a sense of optimism about how people view their paycheques, that's going to be a positive impact too. We can't at this point gauge how they're going to be exactly spending that money. Certainly the CPP changes have perhaps modified some of those expectations for 1997, but on the whole, if you continue the course to get through to 30% there will be a marked change we think in consumer spending.

Ms Isabel Bassett (St Andrew-St Patrick): Thanks for your presentation. Ontario retail sales are up 7% over last year, you say. I wonder if they'd be up more if home computers and home renovation sales were factored in. I understand they're not in the retail sales counts, yet those are the areas — as a parent, I go out and get electronic stuff or a computer. Those are the presents you get these days rather than a few years ago. I wonder if you're looking at factoring those in.

Miss Mills: You mean you want to know what's in the retail sales figures?

Ms Bassett: It seems to me they're not particularly accurate if you don't use those two major figures of retail sales.

Miss Mills: Computers are a part of the retail sales.

Ms Bassett: Oh, they are?

Miss Mills: Yes. In fact, if anything, as you've noted, it's a huge strength market in retailing if you're selling TVs, computers and stereos.

Ms Bassett: Then that's my mistake. Is there anything major that is not included because of free trade then?

Miss Mills: No. In fact, the $216-billion figure for the nation actually also includes auto sales. If you take out the auto sales, it's about $78 billion less. So if you wanted to get a less-auto-sales accurate picture, it's still a large industry.

Ms Bassett: And home renovations supplies and hardware are included?

Miss Mills: All included.

Ms Bassett: Okay.

Mr Woolford: I should note that home renovation services would not be in retail sales. When a customer goes to the store and buys something for home renovation, or when a small contractor goes to a store and buys goods for a home renovation, that would be included, but the cost of labour of that individual is not included in retail sales. We can only track the actual sale of merchandise. We don't cover the service side. Or presumably if you get let's say a mid-sized contractor who deals with a wholesaler, some of those sales would not be captured through retail sales. If you've got a somewhat larger renovation company that purchases through a large distribution arm and buys in bulk themselves and then sells to the customer, that would not be captured in retail sales. So there is a little bit of leakage there of merchandise which does end up in the customer's hands but doesn't show up as a retail store sale.

The Chair: Thank you very much. We appreciate the Retail Council coming in and making a presentation to us this year.

ONTARIO TEACHERS' FEDERATION

The Chair: Our next deputant is the Ontario Teachers' Federation, represented by Bill Martin, president; Ruth Baumann, executive assistant; Susan Langley, secretary-treasurer. I hope I have the names and titles correct.

Mr Bill Martin: Perfect.

The Chair: We have good information. We have 30 minutes to spend together if you would like to make a presentation. We could fill any remaining time with questions.

Mr Bill Martin: The Ontario Teachers' Federation is pleased to have the opportunity to present its views and concerns to the pre-budget consultation process. The federation represents 126,000 teachers. It's a statutory body established by the government of Ontario in 1944.

If we look at the current climate, the rapidity of change and growing sense of instability in the education system are having a real impact on the ability of schools and teachers to do their jobs well. I think it's important to look at some of the symptoms that are out there.

Since 1993, the number of teachers in Ontario's schools has declined by 4%, while the student enrolment has increased by 6%. We used the ministry's figure on the increase in enrolment at 1.5% per year.

Between 1991-92 and 1995-96, per pupil expenditure in Ontario dropped by 5%. This does not include the last fiscal year; it does not include those reductions.

The next two I would call warning signals of concern to the federation.

Teacher retirements in June 1996, for example, were 57% above the projections of the Ontario teachers' pension plan board. What we are finding in education now is that as soon as a teacher reaches their 90 points, they are going into full retirement. In the past they were willing to spend extra years within the profession. However, that is not the case any more.

At the other end, where we're looking for students coming in, if you look at the faculty enrolments, they have dropped dramatically, from approximately 10,000 in 1996 to about 6,500 in 1997, a decrease of 34%.

Ontario's ranking based on per pupil expenditures against the Canadian provinces and territories and the United States is probably most alarming. We have fallen from 37th of 63 positions in 1994-95 to 46th of 63 positions in 1995-96. These are detailed in appendix 1 of our report.

There's also a great influx of new Canadians into Ontario, probably greater than any other province in Canada. These students' needs must also be met, and the expense of educating these students when they first enter Canada is quite costly. There is a book called Quality Counts prepared by Education Week, and when you look at that, Ontario would receive a mark of C for its per pupil expenditures adjusted to US dollars.

We were pleased when the Minister of Education and Training made the statement that general legislative grants to school boards would be maintained at their 1996 level for 1997, and we were also pleased that no further cuts would be made and that capital funding for schools would be restored.

However, I think it's important, when we look at this, that the annualized cost of the 1996 cuts to education was $693 million. When the capital moratorium of 1996 is included as well, the 1996 cuts represented an effective loss of over $800 million to the system. We are also distressed by the fact that the restoration of the capital funding did not include building junior kindergarten classrooms and in-school child care centres were removed. JK programs are in jeopardy in this province. I do not believe that boards of education will be able to continue to finance them with the funding that is currently being provided by the board, and it's a shame, because it's a proven fact that early intervention greatly reduces the costs of students down the road.

1040

The teachers' federations have a significant stake in ensuring that changes to Ontario's school programs are workable, understandable, pedagogically sound and ultimately meet the needs of today's and tomorrow's students.

We are all disappointed with the results of the national school achievement indicators program in science for the 13- and 16-year-olds, but I think we have to look at what the reasons were for that. We have outdated science curriculum. The successful provinces all had major focuses on science over the past number of years. For our grades 7 to 9 students, the previous science curriculum was replaced by the common curriculum, which specified only general learning outcomes for the end of grade 9 in an integrated cluster of mathematics, science and technology. Integration of curriculum becomes problematic when tied to the simplistic, data-based style of summative testing found in the SAIP and other national tests.

We also have to look at what is actually happening to our curriculum departments at the Ministry of Education. Dr Patrick Fleck, a former director of curriculum for the Ministry of Education, observed and talked about the reduction of staff, which has played a significant role in that curriculum now is falling behind in Ontario. We simply don't have the human resources to get the job done right.

In 1983, the core of expertise and the continuity of ongoing curriculum review and development was provided by full-time ministry staff. By 1995, only two of six senior executives in the ministry had ever taught in school and the number of experienced educators on staff had declined by over 55%. Without a strong core curriculum, schools cannot consistently deliver a quality program. Without research or a respected knowledge of the best practice, the current initiatives will be ignored by teachers.

A relatively recent phenomenon in the world of education politics has also been the manipulation and distortion of education finance data by the government itself in order to further its wider political agenda.

In June 1994, the Ministry of Education and Training established an education finance work group which came up with a costing framework which consisted of three major categories of spending: the core classroom program, classroom instructional support program and central administration and governance. Everybody in that work group agreed with that framework.

Unfortunately the definitions of the work group didn't meet Minister Snobelen's and the Harris government's objectives, because these were to define "the classroom" much more narrowly to enable further cuts to education spending without breaking the Common Sense Revolution promise not to touch the classroom. It was also to create a public perception that administrative costs are out of control in order to build support for the government's agenda on the amalgamation of school boards and provincial control of education finance. Therefore, the Ministry of Education and Training was instructed to redefine the categories in such a way as to increase the apparent cost of administration of schools and decrease the costs directly attributed to the classroom.

If we examine the possible consequences of the manipulation, if taken to a logical conclusion that only direct classroom expenditures are worthy, we would see classrooms with teachers and computers but they wouldn't have any heat or electricity. Teachers would have no time to prepare lessons or meet with other professional colleagues. Schools would have no libraries and no trained teacher-librarians. There would be no custodial services and no principal to evaluate the staff or to deal with parental concerns. If one assumes that the classroom includes the category defined as "classroom support," there would be heat, light, cleaning, libraries, guidance and other professional services, but even at that point in time principals and vice-principals would not be part of that grouping.

A recent Environics-Focus Ontario poll asked several questions about the impact of the 1996 cuts on education and related matters. We find these findings to be quite positive. In response to the question, "Should we be spending more, less or about the same as now on primary and secondary education?" 88% of those interviewed answered "More," which was 44%, or "The same," 44%; 75% of respondents indicated a willingness to give up the government's income tax reduction; 75% of respondents believed that education funding in Ontario cannot be cut further without affecting the quality of education; 81% of respondents agreed that education spending should be maintained even if it takes longer to balance the actual budget.

The government's perseverance on its pursuit of a 30% income tax cut appears to fly in the face of public desire, because we do believe that these numbers are accurate, as outlined in our appendix 2. An independent economic study conducted most recently in conjunction with the December 1996 pension arbitration revealed that in the absence of future budget cuts and the January 1, 1997, tax cut, the Ontario budget still will be balanced by the year 2000-01.

Business has learned that the ultimate question is not how cheaply we can operate but how well we can operate. Is the province of Ontario willing to sacrifice its "top-grade education system," as cited by Premier Mike Harris, on the altar of the almighty tax cut? I think that's what we're looking at. For the sake of Ontario's next seven generations of children, we ask you to reconsider the direction you are currently taking.

Mr Tony Martin: Thank you very much for coming before us and presenting what I think is an excellent brief and what should be an interesting challenge to the members of the government as we move forward with some of the changes that we're expecting and that are happening to the education system.

It seems to me that the government is trying to make Ontario a more competitive place, and rightfully so, a place that's going to attract industry to come and invest and by that generate jobs and provide some wealth so that we can continue to provide education and health care. But sometimes we get the horse before the cart. Ontario has, over a number of years, proven itself to be competitive with anybody anywhere. One of the reasons for that is that it has got a first-class education system, and over the years it has evolved and attempted to keep up with the best of education process that's out there.

In my mind, any money that's spent in education is an investment in the youth of today and an investment in our future. What I hear you saying is that what's happening now is going to significantly deteriorate the ability of the education system to participate in that way and to be part of that future we all want for our children and for ourselves. Is that correct?

Mr Bill Martin: I think that's a very fair statement. I'm a principal on a leave of absence from the Etobicoke Board of Education, and I know the Etobicoke Board of Education is recognized across this country as being one of the most innovative and productive boards. They have produced curriculum documents that have been used in the evaluation of teachers and studies etc.

1050

With the current amalgamation that is being looked at, the Etobicoke Board of Education is going to be swallowed up in this Metro board of education with 300,000 students, 19,000 teachers and 500-and-some-odd schools. Metropolitan Toronto is extremely unique, but the areas of Metropolitan Toronto have their own character and their own uniqueness. The direction we're moving in, as far as amalgamation of school boards — I'm not opposed to the total amalgamation; I think some boards could be amalgamated. But I think we are going to lose greatly if everything goes through as it currently exists.

I don't know if any of my colleagues would like to add anything else.

Susan Langley: I'd like to add that not only has Premier Mike Harris talked about the top-rate education system, but in 1991 there was a very extensive study done by an American, not a Canadian, who talked about the fact that the Ontario education system was the best in the world — or in North America; I'd better be careful here.

The reason for that is that we had a very well-placed and well-positioned system that allowed top-down policy, top-down curriculum, but also bottom-up quality work that was done at the school board level, so that it had both the top and the bottom and it worked exceptionally well. The outcome of that was excellent coverage on American television channels to talk about the Ontario school system as being the best system in the world, and they did refer to us as being the best in the world.

My concern and the concern of the Ontario Teachers' Federation is that this is simply not going to happen any

longer with the kinds of cuts and the impact of the initiatives of the government.

Mrs Lillian Ross (Hamilton West): You touched on retirement, teachers retiring at factor 90. The teachers' pension fund at the end of 1995 was at $42 billion. It's estimated to be at $45 billion at the end of 1996. When you said, "Teachers reach 90 and then we find they're going into full retirement," I wasn't sure if you thought that was a good thing or a bad thing. I wanted to ask you what your feelings would be to looking at that factor and perhaps reducing it to 85 and what the impact of that would be.

Mr Bill Martin: In the negotiations of pensions, which recently were concluded, the 85 factor certainly was looked at by both the government and the teachers' groups. However, the expense of putting the 85 factor into place was just too much. There would be a massive increased cost to the teachers, as well as to the government, to be able to put that in place, and as a result it was not pursued.

One of the factors that did change, however, was the reduction factor of 5% penalties to 2.5%. We believe that a lot of teachers may, once they get their 90 factor, now take the 2.5% penalty and leave the profession as a result. I think they're leaving the profession because of the frustrations they are experiencing within the classroom.

In my school, with a staff of 40, I spent most of my time going around and reassuring the classroom teachers that they were doing an excellent job. They read the demoralizing statements in the paper that our education system is broke and in crisis etc. That is totally not true. It's my job as a principal to go around and try to maintain that high morale. It's a very difficult and challenging job with everything that's being thrown in our face over the past couple of years.

Ruth Baumann: I'd just like to comment a bit further on the retirement figures. The retirement figures for 1996 were 57% higher than anticipated, based on traditional patterns of retirement in terms of when people were eligible. It's our view that that's a stress symptom of the system; that for that number to jump 57% in one year is an indicator of what the people out there working in the system are feeling.

Mrs Ross: I've talked with lots of young people who've had their certificate for some five to seven years, teaching, filling in when they can, trying to get into the teaching profession and unable to do so. My point in asking this was, first of all, don't you feel it opens the doors for many of our young people who are dearly wanting to get into that profession?

Mr Bill Martin: There is no question that it's opening the door for the young teacher, and I'm pleased that is happening as well. I think we also have to have experience in our schools. I don't think we can just end up with a number of young students without having the guidance of those senior people.

Our predictions now are that those people will be getting jobs, but the number of students entering the faculty will not make up for the number of teachers who will be retiring in the next few years. It's our belief that the students are not entering the profession because of the instability of the profession at this point in time.

Mrs Ross: I'm sorry. What was that last comment?

Mr Bill Martin: I believe the younger teachers are not going to the faculties of education because of the instability of the educational system as it currently exists. They don't see it as being the type of profession it was when I entered the profession back in 1969.

Ruth Baumann: There's been a 35% drop in the applications to faculties of education for September. While teaching jobs have been tough to get for several years, enrolments remained fairly high and applications remained fairly high. But the current crop of applications, according to the university application centre in Guelph, is down 35% over last year. What Bill is saying is that this, we believe, is another indictor of the stress in the system. It's not just a question of whether people think there are jobs there, because that has not changed radically; they've been tight for the last several years. People are not viewing it as a desirable profession right now.

Mrs Ross: I certainly don't see that. I see a totally different perspective on that from the young people, that they do view it as a profession they want to get into. But I'm going to pass over to Mr Hudak.

The Chair: If it's very brief.

Mr Hudak: You know me, Chair. I'll make it as brief as possible. I'm just looking at the per pupil expenditure ranking, and I'm not sure what kind of conclusions you want us to draw from that. Surely throwing more money at the system doesn't necessarily work. We don't want our schools to look like New Jersey or New York, which lead us in per pupil spending by about $4,000. In fact, it's the quality that's going to count, and the minister has talked much about improving the curriculum in the schools.

Instead of looking at the issue of throwing more money at education and ending up with more bureaucracy, like New York, and more good teachers taken out of the classroom and the bureaucracy of the unions, like in New Jersey, the deterioration of the schools, how can we improve the quality of education in Ontario? How do we develop this curriculum? What are your suggestions to us?

Mr Bill Martin: For one thing, to develop a system of curriculum, you're going to have to have people in the ministry office to be able to write the curriculum. You're going to have to be able to set a course that is going to be completed. We were supposed to be receiving curriculum documents back in September for grades 1 through 12. We are now at the end of February. We still have not seen any of those documents that were supposed to have been produced.

Mr Hudak: So a stronger role for the ministry.

Mr Bill Martin: If the ministry wants to take on curriculum responsibilities, then they're going to have to have more people there to be able to do the job.

Mr Hudak: So you support a stronger role for the ministry in making the curriculum instead of having each board —

Ruth Baumann: The ministry has always had a strong role. What the ministry has lost is its capacity to fulfil that role over the last 10 years. They do not have the resources to do the task.

Mr Bill Martin: The boards of education are the ones who are developing the curriculum, and they do an excellent job of developing the curriculum. It's another reason, maybe, for maintaining more boards than what is being suggested in the Fewer School Boards Act.

1100

Mr Kwinter: Thanks for your presentation. I try not to get terribly political, but I have noticed some anomalies that I'd like to get your reaction to.

We've heard from you today that Ontario has been considered one of the best educational environments in North America, if not the best. We had a situation where the Minister of Education stood up to pronounce that the Durham board had received international recognition for its quality, and the next day — I say that figuratively — he's saying the system is broken, that we've got to do something about it.

The city of Toronto has been recognized by major international organizations as the best city in the world as far as quality of life. Consistently, if you read Business Week, if you read Forbes, if you read Fortune, if you read the Economist, they list major cities in the world and their costs to do business for businesses: Ontario, and Toronto in particular, is usually ranked at the very bottom as one of the least expensive major cities in the world in which to do business. Notwithstanding that it has this recognition, the perception by the government is that it's broke and we've got to fix it. Do you have any comments on that?

Mr Bill Martin: I think it's extremely important to remember that when the Minister of Education and Training took office, there was nothing wrong with our educational system, and he's on video stating that he had to create a crisis to make sure the system looked like there was something wrong with it. He's the one who says the system is broken. He's the one who went on video to create the crisis that the system is broken. I would suggest that if the public went to our school system and went into the classrooms, they would realize that our system is not broken. I think it's a direction this ministry has taken, that the whole government has taken in order to reduce costs in the province, and the ones who are suffering the most as a result of this are going to be our children.

Mr Kwinter: I'd like to get back to an issue that I think is very critical. I had a meeting in my riding last Thursday night in which we had a panel represented by all parties, represented by all stakeholders, talking about what is happening to education. I think one of the major concerns is the perception that there isn't enough money getting into the classroom. We heard figures as high as 70% of the expenditures being out-of-classroom expenditures.

We've also heard, when we talk about the three categories of the working group's costing framework, the core classroom program, the classroom instructional support and the central administration and governance, and it was really quite interesting because the definitions — you've alluded to them and I just want you to elaborate on that. Really I think this is the problem, in that the government is using one set of figures. They think the only money that goes into the classroom that has any validity is the money that's spent on the teachers themselves and that light, heat, library, guidance counselling, employment counselling, all the things that are part of a child's education are things we should look at and maybe eliminate. Any comments on that?

Mr Bill Martin: I would concur with you. They have to take a narrow view so they can sell to the public that we're spending too much money outside of the classroom. As a principal of a school, I believe that my library resource teacher is probably one of the most important teachers in that school. They do work with small groups of children having difficulties. I believe my guidance counsellor is just as important. He speaks with parents on a regular basis; he works with children in small groups and takes on a social aspect. There are paraprofessionals and psychologists and we have students out there who require those types of supports, and custodial maintenance. Those to me, and secretarial staff, are part of a classroom. It's part of a student's education.

However, this ministry has decided that those are frills, that those are supports that are not recognized as being directly related to the classroom and therefore are not put out to the public as being truth. Then to move the principal and the vice-principal totally out of even that into the third category to me is just unbelievable. A principal is a curriculum leader. A principal is in charge of discipline in the school. The principal is in charge of parental contact. For the government to state that person is in the bottom list and should not be part of the costing for a school baffles my mind.

The Chair: We thank you very much for your presentation to the committee today and for coming in and expressing your views.

INSURANCE BUREAU OF CANADA

The Chair: We now welcome the Insurance Bureau of Canada, with Mr Griffin and Mr Cooke. Welcome to the committee.

Mr Stan Griffin: Good morning. My name is Stan Griffin. I'm vice-president, Ontario, at the Insurance Bureau of Canada. With me is George Cooke, the president of Dominion of Canada General Insurance Co and a director of the Insurance Bureau of Canada. It's a pleasure to be here this morning.

We have a brief that we are circulating around. I'm not going to read through that brief. What I'd like to do is introduce ourselves and touch on some of the highlights of that brief.

In the meantime I was looking at my calendar and I noted that it was almost exactly a year ago today that this committee was reviewing a much less controversial issue, auto insurance, and we were pleased to be here at that time. We're glad to be back to provide some input into your pre-budget consultations.

The Chair: There are even some familiar faces around.

Mr Griffin: I think there are still some familiar faces.

The Insurance Bureau of Canada is described at the back of the brief. We are the major national trade association representing general or property and casualty insurance companies which play a very important role in the Canadian economy and the Ontario economy.

Three figures I'd like to highlight and share with you: In terms of employment, the general insurance industry provides 94,000 jobs in Canada, of which 42,000 are in Ontario. In terms of investment, the industry invests $31.6 billion in Canada and $12.8 billion in Ontario. The industry is one of the most heavily taxed in Canada. We pay a total of $2.7 billion in taxes across Canada, of which $1.1 billion go to the Ontario government.

Our submission focuses on four areas we believe are important components to an economic renewal in the province: The first is continued fiscal responsibility; the second is removal of barriers to private sector job creation; the third is greater privatization of publicly funded services; and the fourth is reducing the tax burden for all consumers. I'd like to touch on each of those four in the next few minutes.

In terms of continued fiscal responsibility, we would note that during the first 18 months the government has taken very strong action to reduce spending and balance the province's budget. We support the government's approach to fiscal management and we encourage you to take the necessary steps to stimulate economic growth and private sector job creation.

We would specifically recommend introducing balanced budget legislation to guarantee the province will no longer run budget deficits after the fiscal year 2000-01. Our message on fiscal responsibility is pretty simple: Continue to meet the deficit reduction targets and balanced budget objectives.

The second area that we think is important is effective regulation. Here our simple message is that we think there should be elimination of unnecessary regulatory complexity and cost to business. We approve the principle of one financial institution's commission. We understand the Ministry of Finance is considering the combination or amalgamation of the Ontario Insurance Commission, the deposit-taking institution's section of the Ministry of Finance and the pension commission, and we certainly support that. We would like, however, to maintain in that combination that there is insurance expertise that remains within the new commission. We would also like to make sure that the savings as a result of this amalgamation would be passed along to those being regulated.

The third area we touch on in our brief is privatization, and here our message again is a pretty simple one: Move forward with privatization efforts. We refer in our brief to four key findings of a study conducted in the OECD countries on privatization. We note with interest four observations that I would highlight: First, the comparative market conditions are key to realizing significant benefits from privatization; second, the partial privatization, such as outsourcing or private-public partnerships, may well be a desirable objective in some cases; third, creating longer-term, sustainable employment should also be an important goal; and fourth, the ultimate goal of privatization initiatives is not for government to retain uneconomic activities, but rather it should be to create a more flexible, dynamic and responsive public sector.

One item we have specifically looked at and would urge the government to consider is privatizing the motor vehicle accident claims fund. The motor vehicle accident claims fund, or MVAC, is the payor of last resort where an individual is injured as a result of a motor vehicle accident and there is not a direct policy to collect from.

This privatization of the motor vehicle accident claims fund would be transparent to the public. Last year the fund lost nearly $10 million for the government. Removing the fund from the OIC and having it moved into the operations of the industry-wide Facility Association we think would reduce duplication and would allow existing structures and human resources to meet the needs of those claiming against the fund.

At this point I'm going to ask my colleague Mr Cooke to elaborate on our recommendations regarding taxes.

1110

Mr George Cooke: On the question of taxes, I think it's important for you to understand that we fully understand that the government has set out in its Common Sense Revolution, and indicated through its various fiscal statements, its intent to proceed with the major change in taxation, being that of the personal income tax, as opposed to reducing other forms of taxes on goods and services, until such time at least as the fiscal house is in order and further tax reductions might be contemplated. We understand that and we support that approach to taxation generally.

That having been said, as a place holder perhaps we would like to reflect on the fact that we do pay a great deal of tax. On page 4 of the document that has been provided to you there's a table that sets out where those particular dollars go or which taxes generate the over $1 billion that was referred to earlier.

Specifically with respect to premium taxes, I think it's important to note, and we want to try to ensure some institutional memory here, that many of these premium taxes were originally designed to pay for the cost of regulation. We're all aware that the regulatory costs are now paid for through separate full and total assessment of those costs on the industry in other ways.

The point we're making here is that given that these other funds are there, and we fully understand that dedicated tax funding is likely not something this government is going to adopt, on the other hand there are a number of programs along the line of road safety and measures to combat fraud etc which are very much in the public interest that the government does undertake. We would very much encourage you to review the use of the taxes derived from these premium taxes, and to the extent it's possible, at least ensure some matching of expenditure in those consumer areas like road safety and fraud prevention and the like with those dollars.

As well I think there's a revenue-neutral opportunity here for the government to harmonize and provide better disclosure of some of the sales tax. Currently we pay a premium tax, and it's taxed on the companies at the rate of 3% of premium. Our customers pay a sales tax, generally at the rate of 5%, at the point of sale, and for some reason it's 8% on snowmobiles. It would make a great deal of sense to have those taxes combined or harmonized, let's say an 8% tax or 8.1% tax, whatever it is, to effect the same amount of revenue for the government, have that tax burden transferred to the company but

disclosed on the insurance sales transaction so the consumer is aware of what tax is being paid.

The effect of that would be to seriously decrease the administrative burdens for the companies and the very many insurance brokers and agents who currently have to do double remissions. Also it would reduce the need in the ministry of revenue for a lot of very small and really not material auditing activity that has to go on. So with one very easy combination, the government would lose no revenue, but we would receive a reduction in administrative costs, as would the ministry of revenue. We recommend that particular harmonization to you.

In conclusion, there are five points we might just repeat. It's important you understand that we support the government's fiscal initiatives, particularly those that are aimed at fostering economic renewal, growth and private sector job creation. We are of the view that without fiscal constraint and a balanced budget approach, those ends we're all seeking will not be possible.

We believe that the elimination of unnecessary regulatory complexity will also improve government efficiency and reduce costs to business. We're strongly supportive of privatization efforts and we believe that outsourcing, where practical, should move forward. We would ask you to bear in mind that when you're in the position to consider future tax reforms, they should reflect the fact that the general insurance industry is one of the most heavily taxed in the province and that any further tax increases would only add to the cost of insurance to customers. The taxes are a direct pass-through to those purchasing our products.

I might as well, on a related matter, note our support for the efforts Mr Palladini has been engaged in recently around the area of truck safety. Although some of it may be described by the media as controversial, it's very necessary intervention, and we are strongly in support of the activity he's engaged in.

Mr Wayne Wettlaufer (Kitchener): Stan and George, good to see you again. It's been a long time. I have a few questions, one particularly. A couple of years ago many of the foreign insurers were considering leaving the province. In fact a couple of them put their operations up for sale and the Dominion of Canada General Insurance Co bought one of those companies. I was just wondering, in light of the changes that have taken place through our government over the course of the past 18 months, specifically with the automobile insurance product, number one, and number two, with the improvement in personal income tax rates, do you see any renewed interest in investment by foreign corporations?

Mr Cooke: We are seeing now that the Ontario market, particularly the automobile market, which is the largest market in Canada among those markets served by the general insurance industry, is clearly the one that is attracting the most attention of all those that are competing. There is renewed interest in competitive vigour and investment associated with it. Whether that just stems from the changes in personal income tax as much as it does from the introduction of a product that people actually want to sell and believe they can sell at a profit, I think we can all have our views; I'm not sure the jury can come in with a conclusive verdict. But clearly as a result of the changes to the auto product and the regulatory environment, this is a marketplace that people want to be in. You're seeing the competitive reality now through continued rate reductions against that product, even in the three-month period since its introduction. It's a much healthier environment.

Mr Wettlaufer: The ideas you've brought forward are very constructive. In many submissions we don't receive as many constructive ideas. One has really struck me, and that is the privatization of the motor vehicle accident claims fund. I wonder if you could go into more detail, explaining how you envision it.

Mr Cooke: I will try. I should tell you there are some preliminary discussions between our industry and the government on this point. We handle the equivalent of the MVAC as an industry for other provinces in Canada. For whatever reason, and I don't know the history here, MVAC has been carried on by the government. It's to deal with the situation where there is an uninsured motorist. We believe we could likely acquire the obligation to provide this service, roll it in with the Facility Association, which is essentially our insurer of last resort — it's a creation of what we call the Compulsory Automobile Insurance Act here in Ontario — and provide that service in a very efficient way.

The problem is that the MVAC fund historically was funded out of a portion of the charge that goes against drivers' licences and the renewal fees. Over the course of the last several years that funding was cut to one tenth of what it had been before. Not only did the fund lose some $10 million last year, it likely is underfunded at this point in time by a substantial order of magnitude. I'm going to throw a number out, but I could be wrong by as much as $20 million: in the order of $80 million. The actual fund that has been set up by the government to continue to provide money into this is running out. This is part of what I would call the fiscal inheritance that has passed from one government to the next, because these funding changes were introduced I believe in 1994.

We're in a situation now that few are aware of, where some action has to be taken on MVAC. Either additional revenue has to be made available from within government, or an additional tax has to be imposed on consumers which I would argue is highly undesirable, or there has to be some restructuring of this activity such that it is delivered in the private sector, and delivered more efficiently, along with whatever corresponding financial arrangements could be negotiated between our sector and the government. But something needs to happen within the next six months.

1120

Mr Kwinter: I'd like to pursue the MVAC issue as well. I haven't quite figured out your rationale for taking MVAC and putting it into Facility. You're saying that in 1995 you had a $10-million shortfall. Is that a result of administration? Is it a result of claims exceeding financing provided by the government or provided by people who get their drivers' licences? What has created that shortfall?

Mr Cooke: As I understand it, it's likely caused by several things. Notionally, there was a fund set up in government, the income against which was used to fund

MVAC. Basically that transfer of funding, 90% of it, was redirected to other parts of the government and 10% of it was left for MVAC, which is clearly inadequate, so there's clearly inadequate funding.

Second, I suspect, although I can't assert this to be true, that the reserving practices of MVAC are somewhat less than desirable, or put differently it's not attested to actuarially with the same responsibility that would be imposed on us as private sector parties, for example. As such, I suspect the balance sheet at best is misleading, although I'm sure people won't like me to say that.

I suspect the third part of this is that the claims handling practices associated with MVAC are not as desirable as they might be. I say that with some understanding. Since we actually contracted for some of the claims handling on an outsourcing basis up until about 1992, we have some understanding of the way that was conducted.

So for a variety of reasons, this fund is in a very difficult situation and it needs the discipline that's brought to bear, frankly, of a private sector discipline for everything from collection of outstanding accounts receivables to claims handling to having to force both parties to clearly disclose what's funding it and what's not so there's no more of this shell game that's been going on.

Mr Kwinter: My concern is that if you transfer it to Facility and they have a similar problem, they're going to have to recoup that shortfall and spread it over the people who are in Facility, who are already getting hammered as it is. Is that just going to exacerbate the problem where people who are in Facility are going to get to the point where it is going to be absolutely impossible for them to drive a car?

Mr Cooke: There would be no intent to spread it over that small group. The point of transferring it to the Facility is that there's infrastructure in place in terms of buildings, administration, telephones, technology and the like, where you can bear only the incremental cost of MVAC as opposed to the total full cost of creating it from scratch. Obviously, to the extent there's a shortfall, we have to be spread across the entire industry once some form of transfer relationship is negotiated.

Mr Kwinter: So Facility would just be an administrative component.

Mr Cooke: Absolutely. It's a very convenient place to house something that would come out that has an impact for all the industry. It would not necessarily be the FA. It could be anything.

Mr Griffin: It just happens that legislation requires that all insurance companies licensed in the province belong to Facility, so it's a convenience administratively.

Mr Cooke: We do that for other provincial jurisdictions, so the infrastructure is in place.

Mr Kwinter: I just wanted to make sure that was the intent —

Mr Cooke: Absolutely.

Mr Kwinter: — that it wasn't going to shift the financial burden to Facility.

Mr Cooke: No.

Mr Tony Martin: I have two questions. One is, looking at what's happening out there and the result of some of the initiatives of the government in its short year and a half and the impact it might have on your industry and on the economy in general, there's no question that because of the low interest rates there has been an improvement in the economy in some sectors, yet we still see high unemployment and we see bankruptcy happening at a record rate at this point in time. How do both of those impact on your industry?

Mr Cooke: Let me take a shot. Low interest rates, generally speaking, have had two impacts on our industry. Many of our investments are held in fixed-income securities, and to the extent that there is a rollover of those securities, interest rates being lower, there's less investment income generally available to us. At the same time, low interest rates on the investment side tend to drive higher equity prices, and we have benefited from capital gains associated with stock prices.

Mr Tony Martin: What I was interested in was the impact of continued relatively high unemployment and a record high bankruptcy rate in the province on your industry.

Mr Cooke: Let me try to finish the first part and I'll get to it. The other counterpiece to that is as the opportunity for investment income declines, the need for us to break even on the underwriting side increases and so there has been a more stringent underwriting practice that we've engaged in, so that's what's happening there.

To the extent that we're insuring industries or companies that are going bankrupt, that of course is imposing a burden on us, as it does on anyone else. It's highly undesirable. From an unemployment point of view, I think the employment levels in our industry are generally flat. There's clearly a change inside the industry from low-end jobs or low-skilled jobs to much more highly skilled jobs as we implement new technology. Most of the gain of that is being experienced through improved customer service. The high unemployment rate is actually allowing us to hire skilled people at lower salaries than otherwise would be the case, and those savings are translated into lower premium costs for insurance.

I guess the point you're trying to get at is that high unemployment and high bankruptcy rates are not desirable. I would agree with you completely. Clearly, we would support any reasonable set of initiatives, as I think we have today, that are aimed at changing that particular circumstance, but specifically the phenomena you've described manifest themselves in our industry the way I've set out.

1130

Mr Tony Martin: My second question is with regard to your comment and the initiative of Minister Palladini with the trucking industry. I find it somewhat strange that this government and anybody representing industry would be as supportive as obviously you are of more controls and regulation where it affects a business, which is trucking, which has a direct impact on our ability to get goods to market.

Our read of what's happening, to be frank with you, is the deterioration of roads and our infrastructure system, and I think that can be backed up by some of the presentations we've had before the committee here. Yesterday, I believe we had the Good Roads people before us, who

were talking about a concern they have about the deterioration of the road system we have. I also reference the doing away with photo-radar, which was slowing people down and creating safer roads out there, and perhaps would have had a more proactive, preventive effect on the question of wheels flying off trucks than coming in with the very onerous, highly regulated regime we're seeing now in a part of the industrial infrastructure of Ontario.

Mr Cooke: Regulation that is sort of focused and effective and firm is something we have always supported. The regulation we don't support is the kind that is frivolous and not productive. Every time a wheel falls off a truck and hits a car, quite apart from the human carnage that seems to inevitably ensue in recent months, our claims costs rise substantially because we pay directly the costs associated with whatever mess otherwise ensues, so we see the initiatives of Mr Palladini in two lights:

(1) Clearly more stringent regulation and higher fines will force the responsibility for adequate safety measures and practices back on to those who have the most opportunity to control them.

(2) The awareness around this issue that has ensued because of the debate, and it's a legitimate debate, I think has also helped many in related areas realize that if you don't take action for yourself, somebody is going to impose it.

It's for those kinds of reasons that we make the statements we do.

Photo-radar was an interesting revenue-generating concept for the government. We're not going to ever know the answer to this, but as much as it may have slowed some down, my personal view is the frustration level for the bad drivers simply went up and there was reasonable evidence of in and out and tailgating and the like, which I think over time may well have seen a reduction in speed and an increase in accident frequency and possibly even severity because of it. I don't think photo-radar by any means was the nirvana for which I think it was very well intended.

The Chair: Thank you very much. I know you had three questions, Mr Martin, and I apologize but we're trying to stay on time, as we'll end today probably with division bells in the House.

I thank the Insurance Bureau of Canada for their attendance and your presentations today, and in helping us in our deliberations.

ONTARIO PHARMACISTS' ASSOCIATION

The Chair: We now welcome the Ontario Pharmacists' Association. We have 30 minutes to spend together. As I mentioned, we will very likely have a division bell in the House today, which will end our time together. If you'd like to proceed, we'll try to fill any remaining time with questions.

Mr David Malian: Good morning. My name is David Malian, chairman of the board of the Ontario Pharmacists' Association. With me today is Barbara Stuart, our CEO; David Hodgson, our public affairs coordinator; and David Windross, chair of our public affairs committee.

The Ontario Pharmacists' Association represents 4,500 pharmacists from across Ontario, and from across our profession: community, hospital, government and industry. We are the gatekeepers of the Ontario drug benefit program and we are worried about its future.

Last year we provided this committee and the Ministry of Health and every member of the Legislature with a document entitled, Strategies to Reduce Health Care Costs Through Pharmaceutical Care and Medication Management. In this document, we set out cost-saving strategies that could reduce ODB expenditures by between $200 million and $400 million annually. These strategies focused on ways to reduce inappropriate use, non-compliance and drug wastage.

These strategies, if implemented, would not only reduce ODB expenditures, but would also have far-reaching downstream benefits in reducing other health care costs. The strategies were real, the results were achievable, but nothing happened. Yet every year health care costs due to inappropriate drug use and non-compliance are estimated at $7 billion to $9 billion across Canada. Obviously, these numbers are unacceptable, not just because of the costs of the health care system but because of the huge toll in lives and suffering. The good news is we can do something about them. But there must be leadership, cooperation and innovation to make a meaningful difference.

We are here today to offer once again our support for measures to contain and control drug plan expenditures. These cost-control measures must be focused on the real reasons for escalating drug plan costs, the costs of drugs and their inappropriate use, and not on the professional fees of pharmacists or copayments from patients. Pharmacists are struggling to cope with the impact of copayments and the downward pressure on professional fees in a highly competitive market.

A recent Globe and Mail article stated that an analysis by Dun and Bradstreet Canada has found declining profits and returns throughout the 1990s, especially since 1993. According to Dun and Bradstreet, after-tax return on sales has fallen by 40% since 1992. Return on equity has also fallen 40%.

Pharmacy cannot take another hit like copayments and maintain the level of pharmaceutical care necessary to meet the professional standards of our college or the health care needs of today's seniors and other patients covered by ODB. Another major reduction in revenue will seriously jeopardize the future of many pharmacies across the province.

Similarly, we do not believe that ODB recipients can cope with an increase in copayment levels. Other provinces may have higher co-pays, but is the quality of health care the same as Ontario's? We understand and we support government efforts to control expenditures; however, there are more cost-effective ways to reduce costs than reducing pharmacists' income or raising copayments.

Last year we talked about the pharmacists' role in medication management. We talked about how pharmacists can save costs and improve health. I want to give you an example of how effective we can be.

Omeprazole, brand name Losec, and Ranitidine are gastrointestinal drugs used to suppress acid and treat ulcers. They were the top two ODB drugs in the fiscal year 1995-96 in terms of dollars paid out. Together they accounted for 1.4 million claims and $76 million dollars in expenditures. But it didn't have to be this way. The top two drugs were second-line treatment drugs, meaning they should only be used if other less costly therapies fail to get results. Pharmacists and physicians, working together, may have been able to recommend more cost-effective approaches utilizing less costly drugs and alternative interventions.

There are opportunities for real savings. In fact the Ministry of Health outlines various, less expensive alternatives in the Ontario Drug Benefit Formulary. Pharmacists and physicians, working together, could have potentially saved $25 million dollars from these two drugs alone.

The strategies we proposed last year could reduce ODB expenditures by tens of millions of dollars annually. All we need is the will and a call to action. Pharmacists are key players in the primary health care system. We can make a difference and the OPA is going ahead with initiatives on its own. For example, the Ontario Pharmacists' Association has launched the managed medication use program, MMUP, across Ontario. Through MMUP, we are working with municipalities, agencies, boards and commissions, and other public and private sector employers to reduce drug plan costs in ways that will also improve employee health.

We are implementing initiatives like trial prescription programs to reduce drug wastage and non-compliance. Under a trial prescription program, patients are given only the first seven days' supply of a 30-day prescription. The pharmacist calls the patient on day six to see whether or not the patient is tolerating the drug to determine whether the treatment should continue. If all is in order, the balance of the prescription is dispensed. If not, another course of action is discussed with the patient and his or her physician.

By implementing this program, millions of dollars of medications will be saved and not wasted. More importantly, the health of the patients involved in the program will be protected. We are working on the details of such a program with the Ministry of Health for ODB. We hope this committee would recommend that the government get on with its implementation. This is just one example of how community pharmacists can make a difference.

Many other suggestions are contained in our strategies book, including recommendations for the government to initiate discussions with the private sector on the privatization of the ODB program. OPA has begun discussions with the industry and we will bring these players to the table.

Our goal is simple and straightforward: We want to be part of the solution, not the problem. We want to work with government to improve the health and quality of life of Ontario citizens in ways that maximize the use of pharmacists' expertise and cognitive services and create a sustainable future for the Ontario drug benefit program and community pharmacy. Enough has been said and written. The time has come for action. We hope this government will make it a priority to work with OPA, OMA and other health care professionals, seniors and other stakeholders to develop and implement programs to control drug-related health care costs and improve the health of Ontarians through quality drug therapy programs. We believe a task force should be struck with a short, 6- to 12-month mandate with clear direction to make things happen.

1140

We have discussed this proposal with the Honourable Cam Jackson, minister responsible for seniors. During our discussions with him, and in previous discussions with the Honourable Jim Wilson, Minister of Health, it became quite clear that pharmacy and government share the same goals. We both want to provide the public with the best quality service in the most cost-efficient system. We want to provide the best product and professional service at the best price.

I am a community pharmacist from Windsor. There are thousands of community pharmacists like me across Ontario. We employ tens of thousands of Ontario taxpayers. We are an important part of the tax base of Ontario municipalities. We support local economies, and we support community activities from minor hockey, baseball and soccer to seniors' activities and special charities.

But more importantly, we are a part of the very heart of many communities. People rely on us to protect their health. Many of our patients are seniors who have dealt with their community pharmacist for years and have built up a relationship of trust. Our patients come from a wide range of cultural backgrounds. Some require specialized language services to ensure their health. But most of our patients are just ordinary folks who need the professional services of a pharmacist and the medications we manage to make them well.

Pharmacists are essential to the health and wellbeing of Ontario citizens and to the fabric of communities across Ontario. We are key primary health care providers with the knowledge and expertise to make a positive difference in health care outcomes and costs. We are on the same side. Let's tackle this problem together.

Mr Kwinter: Thank you, Mr Malian. I'd just like to get a little clarification on the example you used on the Losec and Ranitidine. Are they unpatented and are there generics available for them, or are they still under patent?

Mr Malian: For the Ranitidine, there are generics available; for Losec, the trade name, there is not a generic equivalent available yet. It's still under patent.

Mr Kwinter: When you say there are less costly therapies available and you have to work with your pharmacist and your physician, you've let out the drug companies. Aren't they part of that equation? Obviously the detail salesmen are selling the doctors on the efficacy of using, for example, Losec, and that's why they're prescribing it.

Mr Malian: Yes, but Losec is a good drug. I don't want you to misunderstand me. Losec is very effective. However, the most cost-effective therapy or first-line treatment doesn't necessarily have to be Losec. There needs to be a communication between pharmacists and physicians. We need to foster that relationship so that we can pass information on to each other to make sure the

patient is receiving the most cost-effective therapy. If a patient can respond with a generic equivalent of a first-line drug like Cimetidine, then why would they need to be on Losec? It's important that this relationship be fostered.

Losec, by the way, is a drug that is considered a limited-use drug, meaning that there are four criteria patients should receive those medications for. Even though there are four criteria, it's still the number one drug prescribed and dispensed in the Ontario drug benefit program. Obviously the systems that are in place presently are not doing the job.

Mr Kwinter: But it would seem to me that the point of decision is the doctors. You're in fact saying you're second-guessing what the doctor is doing, and I'm not questioning that, because you're really on the front line when it comes to the consumer-patient. But surely if you want to address that issue, it has to be addressed with the medical profession. That should be their guiding principle in everything they do: the most cost-effective at the least price for any treatment they prescribe.

Mr Malian: That's why one of the recommendations in our strategy is prescribing guidelines and, with those guidelines, input given to pharmacists to work with physicians making sure the most appropriate drug is being prescribed and dispensed.

Mr David Windross: Just a follow-up to that in terms of the enforcement of prescribing guidelines, if you use that term, we in Ontario have been very proactive, government and medicine and pharmacy working together to develop prescribing guidelines for antibiotics, for hypertension, for congestive heart failure. They are basically on a voluntary basis right now in terms of being available to physicians and pharmacists across the province; excellent documents, well-refereed and we have all the information in front of us.

We also have another fabulous system in this province called the Ontario drug benefit network, which the government spent millions of dollars in developing, pharmacists spent thousands and thousands of dollars in implementing in their pharmacies, and we have a whole network which links all pharmacies and all drug benefit patients in this province as well as linking pharmacists as well as physicians to who is prescribing and who is dispensing these products.

We have the tools in order to implement prescribing guidelines through the drug benefit network. This is what we're talking about in our proposals, saying that we've got to sit down now and work it out, because clearly the system cannot afford the costs that it's going through right now. There are solutions to doing that. As a government, you've already implemented networks and prescribing guidelines. We're partway down this road. We've got to go a bit further to get this thing implemented. That is where we are coming from in these types of recommendations we presented to you last year.

Mr Kwinter: Can I just go to another area? You indicate that particularly the independent pharmacists are under incredible financial pressure because of copayments and because of some of the other regulations. I don't know what the exact time line is, but it's probably been a year or whatever it is, since removal of tobacco sales. What impact has that had on your members, and have you seen any dramatic fallout as a result of that?

Mr David Hodgson: In terms of tobacco sales, that's not what we're here to talk about. We don't have statistics about that on a pharmacy-by-pharmacy basis. What we're here to talk about is the other things, the cost-saving measures we can put in place to help the government and help the people of Ontario, particularly senior citizens, maintain this incredible benefit for the future.

One of the things you were talking about before, about drug manufacturers being part of the solution, they definitely are. I guess the equation is, drugs have to be prescribed appropriately, have to be dispensed appropriately and have to be consumed appropriately. There's a role, obviously, for the physician and for the pharmacist and for the patient. Education for all three is critical.

In this document our chairman has shown to you, Strategies, first and foremost is education of all three parties and empowering the patient to make some meaningful decisions about their drug therapy. They should be encouraged to ask questions of their doctors as to, "Why am I getting this drug; is there a cheaper alternative?" It's a $1.2-billion benefit, and in order to maintain and protect that benefit, they have to take some ownership for that, as do the other players in the system.

Mr Kwinter: What percentage of your members how have prescription management on computers?

Mr Malian: As part of the health network, the Ontario drug benefit program? It's 100%.

Mr Kwinter: So you can do your follow-ups on that and you can actually know what kind of dispensing has gone on and what has happened. Does that not resolve some of your problems?

Mr Malian: There's some limitation to that, though. As a matter of fact, there's a great deal of limitation. As David said, yes, we have the network in place, but we need to take one step further. When I fill a prescription for a patient, I know that he may have received a prescription similar somewhere else in this province within the last seven days. I have to try to figure out from the patient if they understand what medications they're taking, what it was. I have to figure out who the prescriber was, who was involved in this therapy, why it was done and try to bring all those stakeholders together. It's a lot easier if we can identify that right on the network. That's just one example. We can identify certain interactions on the network that we couldn't have before.

1150

Mr Tony Martin: You make some very valuable recommendations here today, and I want to follow up on one or two of them. One of them is the continuing down the road of government working with you and with doctors to make sure the system works for people, so they have access to the therapies you're speaking of here, and that it be delivered in a cost-effective and accessible way, both for the consumer and also for the government, which pays a big chunk of the cost of this. Would you see it as valuable to everybody concerned to have a program in Ontario of drug coverage for everybody, as we do with OHIP?

Mr Malian: That's something we need to sit down and discuss. You're right. If the federal government is going

to be looking at something like that, I think we need to do that here in Ontario.

Mr Windross: Also, in answer to that question, a considerable amount of time was spent by previous governments looking at that, particularly under the drug reform secretariat: Who should be covered, and how can we get to Ontarians who do not have any drug benefit coverage, are not on social assistance and do not have a private drug plan? How do we look after them when they get into drug costs for their prescriptions or, worse, catastrophic drug costs, people who get into very serious illnesses with very high-cost drugs? That's what the drug reform secretariat looked at.

The Lowy inquiry of 1990 also touched on that a little bit. As you can see, we've been coming along over the years with various examples of how to do this. That is a very important one that has to be looked at, as to having universal coverage, because provinces like Manitoba and Saskatchewan do have a universal coverage plan and it does have its flaws. But in terms of this committee and looking at the budget and in terms of how you manage the cost, is that a solution? I couldn't tell you right now.

Mr Tony Martin: Although you do feel very strongly that, working together, you can find ways to make significant savings in the system and thereby hopefully make accessibility more reasonable for some folks.

Mr Windross: Right. As health care professionals, as pharmacists, in the health care professions you always work as a team: doctors, nurses, pharmacists. That's what we're talking about. The solutions we are putting forward here, we can't do totally as pharmacists. We need physician input. We may need nurses' input if they happen to be working in remote areas of northern Ontario. We need those types of inputs to come up with a solution and say that we can implement prescribing guidelines, we can do whatever and these will accrue savings.

Mr Tony Martin: You also mention in here, though, a discussion you want to have with the government about the whole question of privatization. I'm wondering how that would fit in, given that I know from talking to folks in my own community and being a critic for our party in economic development and for small business, there's lots of activity out there right now, corporations buying up independent pharmacists and all this kind of thing. How does that fit together?

Mr Malian: What are we doing? Where is the program going? The program looks like we're losing money constantly. If privatization is an answer — and we don't know — let's look at it. That's where we're coming from. Let's look at it, because right now, for the last 10 years, we've been seeing the increase in the cost to the program. I don't know if privatization will be the answer, but I think we should look at it.

Mr Hodgson: It could be that it's just privatization of the administration. There are opportunities there, and privatization of government programs like industry self-management and things of that nature seem to be a way of government and the private sector working in partnership to streamline the administration and yet government keeps control of the program requirements to ensure that the people are protected.

But getting back to your earlier question, if I may, just some numbers to think about: 25% of Ontario people are covered by ODB and roughly 50% are covered by employee-type programs, but you've got 25% of the population — the farmers, the just-over-the-brink-of-low-income type people — who aren't covered for anything.

I think that's the opportunity and the challenge we need to work on with government and our colleagues in the health care professions to see what we can do for those people, because drug therapy will increasingly become a first choice in terms of health care. It's less invasive, it's quicker, it's faster and probably more cost-effective.

Mr Windross: I also think, from the standpoint of our position, let's not preclude organizations like us from looking at the privatization of the drug benefit program. If you look at what happens in Ontario hospitals today, the management of drugs in the hospital, both from a therapeutic point of view and a cost point of view, is done through the pharmacy and therapeutics committee, which is chaired usually by a physician and the secretary of that committee is a pharmacist. Therefore, the policies and procedures and budgets often go through those committees.

Here we have a situation where pharmacists could manage the costs of the these particular committees. Just recently the Ontario Pharmacists' Association has taken over the drug information centre for the entire province of Ontario, which will be a drug information and research centre which is totally funded by pharmacists in this province through their fees. It receives no benefit from government in terms of taxation breaks, grants or whatever. It all comes out of fees from pharmacists and has been in existence for more than 10 years and provides that type of quality drug information service to the people of Ontario. That could be implemented into a drug benefit program, as an example.

Mr Gerry Martiniuk (Cambridge): Thank you for a very excellent report. I'd like some education about what is going on at the present time, especially with physicians' awareness of drugs, and that is your expertise. I know that historically, detailed persons acting on behalf of large pharmaceutical firms educate physicians as to their drugs. What input does your association have either directly on physicians or through the OMA? Is there a liaison group, and is it working at the present time?

Ms Barbara Stuart: I'm going to answer that one. The Ontario Medical Association and the Ontario Pharmacists' Association have several cross-links between the two organizations. The most senior are conjoint executive committee meetings, at which we talk about many of the issues we've been talking about this morning and then delegate some of that responsibility from decisions made there to committees which pharmacists and physicians sit on together to talk about drugs and therapy. The motions and the decisions made at those committee levels then get transferred on and either indicated and directed into programs such as this or we have dialogue back and forth or we continue with ongoing discussions that we have, both of us, with the Ministry of Health and make those recommendations through that avenue.

There is an excellent rapport between OMA and OPA. Certainly they are fully aware of our strategy document and have been very supportive in the introduction of our trial prescription program with Metro Toronto, which many of you I'm sure are familiar with, and certainly have offered their support in the implementation of the trial prescription program through the Ministry of Health, which we have now started some discussions with.

Ms Bassett: To follow up on that and what everyone else has said, you say in your outline, and I heard it last year, you could save $200 million to $400 million from the ODB. Why can't we get some movement on this? I know you're meeting. Is it the bureaucracy? Is it the government? Is it the ministry? Is it you? Is it doctors? As long as we're just sitting here, we might be here next year and you might be saying the same thing. We, as a government, want to save that money. You want to save it. I presume the ministry wants to save it. Why aren't we seeing any action?

Mr Malian: It's all of the above and all of the groups that are involved. That's why we're asking you today to set up a task force, put a mandate on it and say: "You've got six months. You've got 12 months. Correct the problem now." Get all the players together, bring in industry, bring in pharmacists, bring in physicians, bring in the bureaucrats, bring in the manufacturers, bring everybody to the table and say: "You've got a problem. You fix it now. You've got six months to do it." They'll look at our strategies. We cannot implement these strategies without the other stakeholders.

You're absolutely right: We can sit here and keep talking about it all day long. If 25% to 40% of hospital admissions are due to inappropriate drug use, if we could cut that by 10% —

Ms Bassett: Could you just repeat that? How many?

Mr Malian: Some 25% to 40% of hospital admissions can be attributed to inappropriate drug use. I'm sure you've heard that figure many times. We've stated it, OMA stated it, everybody else stated it. If we can just touch a little bit of a $1.2-billion program, think of what savings we could make.

Mr Windross: It's also important to note, as I indicated earlier, the province has invested in a drug benefit network, we've invested in prescribing guidelines. We are moving along. That's not an issue; it's how you bring it all together and how you implement it so you actually get the raw cost savings.

My earlier example of hospitals: We have a mirror image of what we want to do in every hospital in this province, because you as a government will give a basket of money to a hospital administrator and say, "This is what you have to work with." Well, you've got a drug budget to manage. In managing the drug budget, you also have to manage therapeutics. Obviously you don't want Ontarians being deprived of certain medications because it's not in the drug budget. You have to manage that. So you go back to the theory or the assumption that we don't mind paying for the cost of therapy provided it is appropriate, is being prescribed appropriately by in some cases the appropriate physician, is being dispensed, controlled and monitored.

In the past, we've gone to a cost-saving mechanism of, for example, saying, "For all medications now it's a 250-day supply." You and I will take a 250-day supply of a medication. It will cost perhaps $600, as an example, which is not unreasonable for that much medication. You send home an 81-year-old with that much medication, and they're supposed to look after this for 250 days. All of a sudden they don't comply, because maybe they don't understand or they can't see the label properly or whatever it might be, and now this statistic comes us. You end up at the doors of North York General being admitted because you're not complying with your medication and you have to be re-established etc.

We know what the solution is. We know what's causing the problem. But how do we hone it down to get to where we are? In the document we presented last year we feel there are some concrete examples to do that.

Mr John O'Toole (Durham East): I read a report last year by Professor Coambs of the University of Toronto talking about non-compliance and misuse. I haven't got the statistics, but reference 19 in your report talks about that study. Apparently it represents some $7 billion to $8 billion of waste: not using them, not using them correctly, not filling them. Clearly, we need to have a better method of spending in not just health care broadly but specifically in drug use. Do you believe that your plan here, the integrated model, is something we need to move forward with effectively?

Mr Hodgson: Definitely. If I can just give an example.

Mr O'Toole: Professor Coambs's report is very good.

Mr Hodgson: It's an excellent report, and that's where we gleaned a lot of our information from. This little booklet that's in your kit describes our managed medication use program.

Metro Toronto is a microcosm of Ontario. They had a problem: Their drug benefit program was going through the roof. We went there and worked with them on a program to educate their employees about the benefits and the appropriate use of drugs. Pharmacists are now working with physicians in the city of Toronto and Metro to talk about appropriate prescribing and how they can talk about their patients.

We instituted a trial prescription program. We're instituting wellness programs, where we will encourage employees to learn about their health conditions so they don't just go and get a drug, so they can ask those questions, they're empowered to do things. It's the same thing we want to do; we just want to expand it to the province.

Mr O'Toole: Excellent.

The Chair: We appreciate the Ontario Pharmacists' Association for attending today and for sharing your views with us. Thank you very much for coming in.

SUBCOMMITTEE REPORT

The Chair: For the attention of the committee, the minutes of the subcommittee meeting we had yesterday have been distributed to you. If there are no changes, if someone would move it.

Ms Bassett: I have a change.

The Chair: Moved first. Mr Kwinter would move it. Ms Bassett, a proposed change?

Ms Bassett: The proposed change is, given the fact that many of our members go home on Friday, they go home Thursday night, I request that the clerk deliver the report on Thursday at the latest, preferably as soon as possible, so the person could go home and study the report over the weekend.

The Chair: In number 1 you would like the date changed from Friday to Thursday?

Ms Bassett: Yes, or as soon as possible.

The Chair: The clerk tells me that although that will put her under extreme pressure, she will make every effort to have that done.

Ms Bassett: All right, thank you. I'm sorry about the pressure, but it's better than our people not reading it.

The Chair: Is there a mover for the change?

Ms Bassett: I move the change.

The Chair: You move the amendment? All in favour? Carried.

For the motion, as amended, all in favour? Opposed? Carried.

There being no further business to bring before the committee, we stand in recess until 3:30 this afternoon.

The committee recessed from 1205 to 1530.

CANADIAN VEHICLE MANUFACTURERS' ASSOCIATION

The Acting Chair (Mr Gerry Martiniuk): Our first presenters today, who have given us a written presentation, which has been distributed, are from the Motor Vehicle Manufacturers' Association: Mark Nantais, president, and David Adams, director. Welcome, gentlemen.

Mr Mark Nantais: Perhaps the first order of business should be to clarify some confusion out there respecting our name. We were the Motor Vehicle Manufacturers' Association until January 15 this year. In some of the information we placed before you, you will notice we've had a slight name change. It's now the Canadian Vehicle Manufacturers' Association. However, all our members remain the same, and for the record, that membership includes Chrysler Canada, Ford Motor Co of Canada, General Motors of Canada, Freightliner of Canada, Navistar International Corp, Western Star Trucks, as well as Volvo Canada.

Just by way of background to give you some additional overview, our member companies produced approximately 2.1 million out of the 2.4 million vehicles produced in Canada in 1996 and are distinguished from Honda and Toyota by virtue of their commitments under the 1965 auto products trade agreement, an agreement otherwise known as the auto pact. The Big Three alone have committed to high levels of Canadian content in their vehicles and exceed auto pact requirements by building as many as three vehicles here for every one sold in Canada.

We are the sixth-largest industry in the world in terms of motor vehicles. Our Canadian vehicle shipments totalled $50 billion in 1995, and in 1996 it was actually a little bit higher than that, with parts shipments totalling some $21 billion in 1995 and $22.7 billion in 1996.

The Ontario transportation equipment manufacturing sector, which is comprised primarily of vehicle and parts manufacturers, represents $70.2 billion, or 34% of all Ontario's manufactured shipments. Vehicles and parts accounted for 42.2% of the total value of Ontario's merchandise exports in 1995.

The auto sector contributes about 20% to total provincial manufacturing GDP, and one in six jobs is directly or indirectly related to the automotive industry in Ontario. The industry accounts for 4% of all wages and salaries, with an annual payroll of about $15 billion.

Over the past decade more than $18 billion has been invested in this province, with the Big Three investing more than $10 billion over the last five years alone. No other companies within this sector have come remotely close to such levels of investment in this province.

The auto industry is the key driver of the Ontario and Canadian economies. The multiplier associated with the automotive industry is more than three, meaning that $1 of automotive output will generate actually over $3 in the total economy.

Growth in the automotive industry means growth in the economy in general. It was the export-oriented automotive industry that softened the impact of the recession in the early 1990s and pulled the Canadian economy out of that recession.

Just switching gears slightly here, I'll give you brief overview of vehicle sales.

While production has grown, again primarily due to the strong US economy and demand for our product, domestic sales markets have languished. Vehicle sales were up nationally about 3% over 1995 levels, but 1995 sales were the weakest in 12 years, and sales have declined, actually, in five of the last seven years. There's a table, or a bar graph, which shows you sales within Ontario and Canada overall, 1992 through 1996.

The Ontario market was up only 1.4% in 1996 over 1995 levels, and national and Ontario sales were well below the 1988 record levels of 1.56 million and 641,666 respectively. The difference between record sales and current sales in Ontario alone is equivalent to the annual production from one assembly plant.

While recent polls indicate that consumer confidence is strengthening and economic indicators are encouraging, the fact remains that many Canadians continue to be concerned about job security and have limited disposable income, which does not augur well for significant domestic sales growth in 1997.

In fact, 1997 commenced on a positive note, with January sales increasing almost 8.5% nationally year or year, yet Ontario sales only increased 1.8%.

Vehicle sales are an important source of tax revenue for the Ontario government, with the 459,789 vehicles sold in Ontario in 1996. That is 40% of Canadian new vehicle sales, which generated almost $920 million in sales tax revenue, if one takes about a $25,000 average cost per vehicle.

A few brief words about production: The real benefit for Ontario and Canada over the last several decades has been the increased allocation of vehicle production in Canada. Ontario produces about 16% of the vehicles produced in NAFTA countries, while Canadian sales

represent only 8% of the NAFTA total. Canada produces twice as many vehicles as it sells, with some of our members producing, as I said, almost three times as many vehicles as they sell here. Production was actually down by less than half of one per cent in 1996 despite the 21-day strike at General Motors.

Therefore, policies that are conducive to consumers replacing their older vehicles for newer vehicles will assist both the government and the industry. In this regard, we appreciate the action taken by the government to increase disposable income through the initial reduction in personal income taxes payable. However, we believe that there is still room to manoeuvre and room to do more.

The Ontario government has moved aggressively to contain government spending, to decrease the deficit and to re-engineer the way provincial government works. The CVMA supports these efforts and encourages the government to stay the course.

Initiatives such as the establishment of the Red Tape Review Commission are on the right track. Red tape and bureaucracy can be millstones around the neck of business. This is especially true for our members in the area of government certificates of approval where they have sought to upgrade and retool their facilities in recent years. Historically, the approvals process has often caused unnecessary delays and added excessively to the costs, for very little valued added.

We support the recommendations of the commission to establish a regulatory watchdog, to implement a permanent less paper, more jobs test for new regulations and to introduce the notion of spring cleaning bills and sunset clauses to ensure that the regulatory burden does not increase. The CVMA has been actively involved with Industry Canada and the Treasury Board federally in assessing the cost of regulatory compliance in a number of areas. The commission also identified the harmonization of the GST and the PST as a key issue of concern to Ontario business. We concur.

The CVMA has been a long-standing advocate of a harmonized sales tax regime for Canada. It remains our belief that there are significant benefits to be achieved for consumers, governments and industry through sales tax harmonization.

The CVMA understands the government's concern about the transfer of the estimated $3 billion of RST paid by businesses on business inputs to consumers, but consumers are already paying the cost in the price of the products they purchase. Presumably, if the RST was to be harmonized with the GST, prices to consumers would go down by the amount of RST imbedded in the product, much like the average vehicle reduced in cost by about $600 when the GST replaced the old manufacturers' sales tax.

While the broader base of a harmonized tax and any regressive impact of the tax on the poor and underprivileged may also be of concern, they could be addressed through a system of credits and transfers, much like the GST.

Further, the Red Tape Commission in its report, Cutting the Red Tape Barriers to Jobs and Better Government, recommended that: "Where all the provinces are unable to come to a national agreement on getting rid of specific instances of regulatory overlap and duplication, Ontario should negotiate bilateral agreements with the federal government to achieve harmonization and remove overlap."

We would encourage the government to adopt this recommendation with respect to sales tax harmonization. The principles of harmonization, a common sales tax base, a common rate and a single administration may be somewhat Utopian, but it remains our belief that Ontario has a pivotal role to play in any further sales tax harmonization efforts and that Ontario, and indeed Canada, would benefit by Ontario's taking a leadership role to negotiate harmonization terms it can live with and move forward.

Harmonization of the sales tax regimes would assist the automotive industry with respect to the tax on warranty repairs that imposes an unfair burden on the auto industry.

Historically, and if you go back as far as May 1993, the budget extended the application of retail sales tax to warranty repairs without any consultation with industry. The application of the RST was also made retroactive to products sold with warranties prior to May 20, 1993. Extended service contracts were also taxed, which actually resulted in double taxation.

We have several concerns with this. First off, the tax is a direct attack on the auto industry, as we have the most comprehensive warranties of any consumer product; in fact $63 million of the $100 million the tax generates comes directly from the auto industry.

The tax is the only one of its kind in North America levied in this manner, and it sets a dangerous precedent for other provinces. Perhaps most important, this tax is an example of a poor tax policy in that it represents double taxation, as the cost for the warranty is already built into the price of the vehicle, which is taxed when sold. Now the warranty repairs will be taxed once again.

In terms of recommendations, we would like to recommend the following: The taxing of business inputs and the tax cascading that is inherent in this tax are indicative of poor tax policy; for these reasons alone we seek repeal of this tax. Harmonization of the RST with the GST would remove this tax from business input costs, thereby improving the competitive position of Ontario in Ontario's automotive industry, which bears the brunt of this tax nominally.

That concludes our comments. We're here to address your questions.

1540

Mr Gilles Pouliot (Lake Nipigon): Gentlemen, thank you for your presentation and the opportunity to learn more about your industry. I would have imagined that with the clout, the contribution you make through your members, you would come here with six or seven pages of recommendations. I'm certainly pleased to notice that when you talked about broadening the tax base through the process of harmonization, it's a natural flow, you also mentioned an opportunity for the government to benefit and to recognize that some are less fortunate and more vulnerable to harmonization than to the broadening of the RST. That point certainly is well taken.

I was unaware that you produce twice the number of vehicles that are sold in —

Mr Nantais: There's a range, and we have one company that actually produces three times the vehicles it sells here. That's a tribute, of course, to the auto pact itself and the entrenchment of those principles in NAFTA and the fact that over about 88% of all the vehicles we produce here go Stateside.

Mr Pouliot: We have a little more than seven million Ontarians with drivers' licences in good standing. We readily acquiesce to your good office in terms of safety measures such as the graduated driver's licence process, where we had — you're in the business of selling vehicles. We were nevertheless cautiously optimistic, and I certainly wish to thank you for your contribution, and your good office, that of the previous administration.

Do you feel that the supplementary tax on luxury vehicles or any tax is a deterrent? Whom do you compete with? You see, I'm a consumer; the car will last regardless. Let's say I'm in the market for a car. If I don't buy the car here, where do I go, or do I just delay buying a car?

Mr Nantais: I think it's the question of delaying the purchase. One thing we know for certain is that the decision to purchase a new vehicle is a deferrable decision. We are now in a situation where the whole question of vehicle affordability is becoming a great concern. When you look at the price of cars today versus 10 years ago, yes, the cost has gone up dramatically, and that cost is attributed to a number of different things, such as emission control systems, the addition of new safety equipment, for instance. All these things add to the costs. Any time you add tax on to the vehicle, whatever form, it raises the issue of affordability, it raises the issue of access by vehicle purchasers in terms of buying that vehicle. There are a lot of attendant issues that are with that, obviously. You lose revenue if you're not in a position to buy those vehicles.

In addition to that, there are also some environmental issues, for instance. The vehicles we are now selling have reduced emissions by 98%, compared to the pre-control period. If we are to achieve some of the environmental goals that we want to achieve, then the idea is to turn the fleet over as quickly as you can, get the cleaner vehicles out there as quickly as you can. Any deterrent to purchasing a vehicle because of price is a deterrent to achieving, in some cases, your environmental objectives.

Mr Pouliot: But you're generous. You also make mention of the tax cut, which obviously puts more money into the consumer's pocket, so there's a bit of a balance. When we talked about the implication it has — I read the odd financial pages because I've got to keep up with my distinguished and learned colleagues of the other two parties. It doesn't mean that I do so with reluctance. When I read about the contribution you make and I look at your financial arms, like GMAC — because it's not all people on our side who can ill afford to pay tax. We see it as necessary not so much as an investment, but we need a vehicle to get around and a chance maybe to be like the others. We don't drive the same product, but that's neither here nor there.

Do you have a concern? When I look at the banks and their attempt to get into the financing business and so on, they make a lot of money; it's quite lucrative to assure the financing. When you sell the product, to have your financial arm rake in the profits, I would expect that this would be the major or certainly a major concern, but you're here only to tell us about the production end of automaking?

Mr Nantais: I'm going to turn this over to Dave in a minute here, but we're not here just to talk about that. Obviously it's certainly to provide you with the information in terms of what our industry means to Ontario's economy and some of the key issues in terms of making sure we're able to maintain the levels of production here.

I want to be absolutely clear that we are in no uncertain terms opposed to banks entering the direct retail leasing market, for a number of different reasons. That was an issue we've been dealing with the federal government on in terms of the financial services sector and the amendments to the legislation that govern that sector. The affiliated financial arms, for instance, of the Big Three provide many more services than simply a bank entering into that market. A great deal of money from those companies is actually reinvested in Canada. I'll turn that over to Dave just to give you a little more in-depth view of that.

Mr David Adams: Yes, we could certainly provide you with some figures on that if you are interested in that regard. As Mark says, both our finance companies and the finance companies that are affiliated with the import manufacturers are foursquare against the banks entering into the vehicle leasing market. I guess some of the reasons for that are as Mark has already alluded to. A finance company does provide more services to the dealer body, more services to the manufacturer than just leasing vehicles. They are into areas of financing at the dealership level that the banks have retracted from simply because there's no margin in it for them. So the finance company moves in to support the dealer body, to support the manufacturer when the bank won't, essentially.

Another reason that we have a concern about banks entering the vehicle leasing is the whole notion of residuals at the end of the lease. It's our view that the manufacturers and finance companies are in the best position to determine how those residuals should be set. If you take a look in the United States in terms of what happened down there when the banks got into vehicle leasing — granted, the structure is substantially different in that they have no national banks; they have a lot more state-run banks, that kind of thing — a lot of banks entered the vehicle leasing business and ended up getting burned on the back end of the leases because they set the residual values on those leases too high. They were bringing the vehicles back off a two- or three-year lease and not able to sell them for the amount they were bringing them back for.

In a nutshell, those are some of the concerns.

1550

Mr Joseph Spina (Brampton North): Gentlemen, thank you for coming. Good to see you again. I know we've sat across the dinner table because your industry is in my ministry as a sector.

A couple of things: Thank you first of all for bringing attention to the double taxation on the warranty issue. I know you've brought that forward not just to our government but in the past, from the beginning of its imposition. I think it's an extremely valid comment. What we didn't see here was the financial impact of that double taxation, the amount of money that would impact on government coffers, frankly, but what savings you might realize by the elimination of that double taxation on the warranty.

Thank you for bringing up the tax break that we introduced. There's no question that we feel the consumer can use that as a down payment or whatever.

I want to go to the 1995 sales volume. Does that include the new and used or is it strictly new car sales? This would be your industry overview sales figure, the bar graph that puts the 1995 figure at somewhere just below 460,000 units for 1995.

Mr Nantais: These would be strictly new car sales.

Mr Spina: We briefly touched on it earlier before we organized the committee, but there were a lot of incentives in the automotive industry to turn over new car units. What can we do as a government over and above what we've already talked about regarding the taxes and the personal income tax break that could stimulate this? What's the reason for the softness, shall we say, in the market?

Mr Nantais: I think it's a continued lack of consumer confidence in the economy. In spite of some renewed confidence, we still see a problem there. A lot of people are still very concerned about their jobs, about consistent income in order to pay for such a large purchase. That is one aspect of it. Clearly you're on the right track by reducing personal income taxes. The question of whether you do it in one year or over the next two years, it may be worth considering doing it over the next year so that we can stimulate and capitalize on some of that growth in consumer confidence.

Mr Spina: Speed it up, as it were?

Mr Nantais: Yes.

Mr Adams: The other thing we have to realize is that any money that's put back in the consumer's pocket can be used for a variety of different things, and because our members and all manufacturers in general tend to be building their vehicles a little bit better, they tend to hang on to their vehicles a little bit longer and they would rather opt for home renovations or replacing the dishwasher as opposed to looking at getting themselves into a new vehicle. So there's that consideration as well. You just have to be cognizant of that.

Mr E.J. Douglas Rollins (Quinte): Thank you, gentlemen, for bringing your industry to Ontario. Keep expanding here, because there's no question about it: The more you do here, the better off we all are as Ontarians, regardless of whether we're on this side of the table or on that side.

One of the other things I find fairly interesting — I know you want to harmonize the tax, but do you realize that when you do harmonize it, it may help your industry in some things but there are some consumers out there who may not be benefited? Ottawa, if we just straight harmonize, would pick up an extra $3 billion or $4 billion out of the taxpayers of Ontario. That's probably one of the reasons our finance people are not awfully enthused about doing that.

Another question I'd like you to answer: I know we all see lots of cars and trucks on the roads, carrying cars and trucks and that thing. Do you have any record of how much you ship by rail and how much you ship by road? Every day, with the wheels coming off and all the rest of the things, we hear all that kind of talk about the heavy load of 401. Does your industry do something to — I know you ship some rail, but how much?

Mr Adams: We could probably get you some fair figures on that, Mr Rollins. One of the things you have to realize and you probably already know is that over the course of the last, say, 10 to 15 years even, the whole industry has moved much more to a just-in-time type of manufacturing process. That really necessitates the use of trucks more so than rail, because you can get that part right to the line right at the time it's required for that vehicle to be built. So I could see that, yes, if you looked at it over the course of the last 10 to 15 years you probably would see at least a bit of a switch from rail to the truck mode of transportation.

Somebody mentioned it to me the other day, but another issue could be just the infrastructure we have in place here if we aren't repairing the roads. Some of it has to do definitely with the state of repair of the vehicles, the trucks, but perhaps some of it has to do with the state of repair of our roads in Ontario as well. If there are potholes, then maybe there's a reason why the bolts are coming off and that kind of thing as well. I take your point, and we can determine those figures for you.

Mr Kwinter: I'd just like to get a handle on the market. You say that you produce twice as many cars as you sell in Ontario, or in Canada, I guess, which means about 85% or 90% of the cars are exported to the United States and there's a relatively small number of models that are actually made in Canada. What I'm trying to figure out is this: The twice as many cars that are produced, or the half the number of cars that are sold here, there must be an awful lot of those that are imported cars. When I say "imports" I don't necessarily mean offshore Japanese or German; I'm talking about General Motors, Ford, Chrysler, because a lot of those models aren't made in Canada and they've been bringing them in from the United States or wherever.

How does that relate to the numbers? You get the impression when you read this that the major manufacturers you represent produce X number of cars, of which half are sold in Ontario, but those half are not really sold in Ontario; 90% of them are exported, and the rest of them come in from somewhere else, representing those companies, but they're not made here. Is that correct?

Mr Nantais: Sort of. Generally speaking, because of the auto pact you see a free flow basically between Canada and the US, primarily of vehicles that the Big Three produce. I mean, Volvo — we have auto pact players, obviously. Clearly the percentage of vehicles, if you're suggesting, that might come from offshore in terms of the Big Three's products are very few. There are generally those which have been produced in North America that move freely across the border.

The transplant companies that are here, of course, the preponderance of those vehicles are from offshore still, which has always been our claim as to why we've always suggested they should be auto pact players and should meet the same requirements as we do in order to create more employment, create more sourcing in Ontario and continue to expand the industry in Ontario. But clearly the number of vehicles that come from offshore in terms of what the Big Three are offering is very small.

Mr Adams: To extend on that a little bit too, Ontario, Canada, does have certain world mandates for vehicles. For instance, the Ford plant in Oakville with the Windstar has a world mandate to produce that vehicle. Chrysler up in Joe's riding just has the world mandate now to produce the new Intrepid/Concord line. So there are certain world mandates that Canada is fortunate in having the production for.

If you look back to pre-1965, pre-auto pact, you would have found in the factories around Ontario, Canada, where exactly that situation was going on where they were trying to produce the full range of vehicles for the Canadian market. That was inefficient. We didn't have the economies of scale there, and that's what prompted the auto pact which would say, "Let's set up specific plants on either side of the border to make specific models and then there would be the free flow of those models across the border under the terms and conditions of the auto pact."

Mr Kwinter: I'm hoping one of the recommendations that comes out of this committee will be one that will address the double taxation on the warranties. That's something I've advocated for a long time. It was part of our platform in the last election. I agree with you, it's double taxation. It's the only jurisdiction in North America that does that, and it makes no sense other than as a tax grab. As I say, I hope that is something that will come out of this, that we can all have some unanimity about, to have that happen.

Mr Nantais: We would certainly welcome that recommendation.

Mr Adams: In some cases there's actually triple taxation, as you may be aware, through the insurance that is often backing up the extended warranty plans that people buy. There's tax on the insurance policy as well. So there's tax on the insurance, there's tax on the extended warranty repairs and there's tax on the warranty that's built into the vehicle. It does become a bit of a tax waterfall.

Mr Kwinter: I'd like to also, in the remaining time I have, talk about the harmonization. To date I think — I may be wrong because I missed one session yesterday morning. But to my knowledge there's only one sector — as I say, there may be one or two more — that's advocating not harmonizing the GST and the PST. The Canadian manufacturers' and exporters' association are supportive of it. The agricultural sector is supportive of it. The Retail Council was here today and is supportive of it. The pharmacists are here and supportive of it. The auto manufacturers are supportive of it.

So you certainly have the bulk of the economic sector — and having said that, I can just spot out of the corner of my eye Mr Seiling here in the hospitality area, and he probably has a different view. We'll hear from him shortly. But it would seem to me that with that sort of preponderance of players in our economy who see this as a benefit, you'd wonder why this isn't being done.

I understand, as the retailers were saying, they want to have a level playing field; they don't want to have it harmonized and have one jurisdiction with maybe an 11% sales tax, another one with 0%, like Alberta, so that you have these discrepancies and you have people who are tax shopping depending on the jurisdiction. Can you just elaborate on how you see it and how it would benefit you?

Mr Adams: Briefly, we're a country of 30 million people and it makes absolutely no sense why we should have 10 or 11 different sales tax jurisdictions for this country. In terms of advertising campaigns, it would save everybody a lot of money to be able to do national advertising campaigns for products. I'm sure you've heard some of these same issues raised before, Mr Kwinter. We can elaborate on that for you if you'd like.

Mr Nantais: There's also the cost of administrating those different tax regimes, which is just phenomenal.

The Acting Chair: Gentlemen, thank you very much for your presentation and assisting the committee here today.

1600

ONTARIO HOTEL AND MOTEL ASSOCIATION

The Acting Chair: Our next presentation is the Ontario Hotel and Motel Association, Mr Rod Seiling, president. Welcome back, Mr Seiling.

Mr Rod Seiling: Thank you for the opportunity to appear before you today. You know my name's Rod Seiling. I'm president of the Ontario Hotel and Motel Association and the Hotel Association of Metropolitan Toronto.

Before beginning, I want to take this opportunity to thank this committee and this government for the positive response to our presentation last year. It was certainly gratifying to our members all across the province to know that through this consultation process they can affect public policy in a positive way as it impacts on them and their businesses.

We understand and support the government's need to get its fiscal affairs in order. This is something that our members have had to do and expect that government should not be isolated from those same economic and fiscal realities. We also appreciate the initiatives taken to date to restore a favourable business climate in the province. The positive results are starting to appear, but as was the case going into the recession, it appears our industry is lagging behind in the recovery as well.

Our members are part of the tourism industry. Tourism is the world's fastest-growing industry. Not surprisingly, other countries and other provinces, our competitors, have recognized the many benefits tourism can bring to their respective economies. The World Travel and Tourism Council predicts that by the year 2005, tourism is expected to more than double its current gross domestic output to $7.9 trillion, generate 90% more jobs, almost triple its capital investment to $41.7 trillion, and attract

more than double the current level of consumer spending to $4.6 trillion annually.

Last year we asked this committee to become involved as it relates to support for tourism. The decision to move tourism back into economic development was a good start. Tourism is economic development; most everyone recognizes this. However, just having it in the right ministry will not bring about the positive results tourism can provide to the economy as it relates to job creation and new tax revenues.

Ontario's support for tourism has shown a drastic decline over the past number of years. The province at one time not too long ago had a tourism marketing budget of approximately $27 million annually. Successive governments have cut this number down to where it is reportedly around $7.8 million and rumoured to go even lower in the forthcoming budget. It is interesting to note the difference in the level of support for agriculture versus tourism, with agriculture representing 3% of the province's jobs and tourism 6%. This comment is not made to denigrate agriculture but to point out the difference in support.

The state of New Jersey was about to begin this same cost-cutting exercise. Fortunately for the industry, but even more fortunate for the state and its citizens, the governor, Christine Whitman, requested that a study be done to examine the overall impacts. To her and her officials' surprise, the study, which was conducted by Blackwoods, an Ontario company, revealed that for every dollar New Jersey invested in tourism marketing, it received $4.40 back in direct tax revenues. Not surprisingly, the decision was made not to cut the funding. Also not surprising, New Jersey has increased its commitment to tourism by 60%, just as other competing jurisdictions are doing likewise. A study for Hawaii has reported the same kind of information, with the return there being $8 per dollar of investment. Conversely, in Colorado, a cut in their budget has resulted in a 40% decrease in their tax receipts from the industry.

Fortunately, the federal government has recognised the job-creating benefits of tourism. The Canadian Tourism Commission, CTC, established initially with a $50-million budget and just increased by another $15 million, has helped make up for some of the lost funding. That is the good news. The bad news is that the program is on a matching-funds basis, and with Ontario's cutbacks, our competing provinces are gaining at our expense with our own tax dollars. The president of the CTC, Doug Fyfe, has called Ontario a black hole as it relates to tourism marketing.

Unfortunately, many officials don't appreciate or understand the industry and take a laissez-faire attitude towards it. Tourism is not just on their road map, and that is truly unfortunate: unfortunate for the industry, unfortunate for the thousands of unemployed people all across the province, and unfortunate for government, which is forgoing new sources of tax revenues.

That attitude is one of the major reasons why our share of tourism receipts continues to decline in a growth market, as the accompanying chart 1 shows you. Just as disturbing, we are losing market share within our own province, as chart 2 shows. The major reason for this decline is a lack of awareness, as chart 3 demonstrates. While we have experienced a growth in actual dollars, it is very troubling to our members that they see these lost opportunities go to other destinations when it is universally recognized we have the product.

We are not suggesting that Ontario needs to be the number one destination. What we are suggesting is that the province be allowed to compete fairly in this market. On that basis we are confident that the industry will grow and prosper and in the process create new jobs. This will require business investment by the province in the area of marketing and the further provision of a level playing field.

We would not be so presumptuous as to expect the government to invest without an expectation of a return. Chart 4, which I think is the most important chart here today, shows that there is room for a return; that is, there is a reasonable expectation to grow the business. Private industry is prepared to come to the table as well. Destination marketing is a vital component to the success of the industry. There exists general agreement on this from all concerned. The difference of opinion exists on how and who should be funding this fundamental tenet. Over the coming year the industry expects to be able to provide you with a proven business case as to the returns government can expect from investing in our industry. As in any business, we would hope and anticipate that the expected attractive investment opportunity will be well received. You should also note that the industry is not looking for a handout. As I said earlier, it is prepared to become a partner with government in this critical function.

I should also add that this is a problem that is going to become critical in the very near future in Toronto. A major portion of funding for the province's major convention and tourism destination is being withdrawn. That will put in jeopardy about 40% of the province's tourism business and the 100,000 jobs it represents in this market.

As was mentioned previously, the industry also needs to have a level playing field if it is to reach its full potential. In that regard, there are a number of areas the government can act in to provide more fairness.

One of those areas is access to credit. Last year's budget provided incentives for the major banking institutions to lend to small business. Those provisions may be meeting the objectives in other sectors, but I can assure you that for the tourism business that is not the case. Reports from our members indicate the general policy of the financial community of not lending to the industry still is the rule. I have been told by operators who state they have a good credit rating that they need to pledge their first-born and then are not assured of receiving a positive response if they want to get a loan. Loans for as little as $5,000 which would be repaid in the same year out of receipts are turned down, we have been told.

These horror stories are not just related to small mom-and-pop operations. They also include the so-called big operators located in major centres. Our stock of businesses is surely being taken over by purchasers who are located out of Canada. They are taking advantage of what they see as good value in our businesses and buying them up at approximately half of replacement cost. They have

access to capital and are taking advantage of it to the detriment of our local investors and entrepreneurs.

Ontario business owners in our industry will continue to disappear if they are not able to secure financing on a reasonable basis. Those businesses are caught in a proverbial catch-22. They know they need to upgrade and improve to remain competitive, but they cannot get the funding to make it happen.

There are a number of areas in tax policy where the government could and should, we suggest, make changes to provide a level playing field for the industry. Currently accommodation providers with four rooms or less are exempt from collecting the provincial sales tax, PST, and are assessed for property tax purposes as residential. These exemptions are patently unfair and are proving to be a major negative impact on economic viability, particularly in smaller communities.

These operators are finding that these exemptions are making it very difficult to remain competitive. To remain in business, they are cutting staff and refraining from making needed improvements just to try and stay alive. They realize this reaction is counterproductive, but without a short-term future they recognize there is no need to be concerned about the long term. This is a real problem for these owners. In many of these communities, these exempted operators, small bed and breakfasts for the most part, outnumber the traditional roofed accommodation providers.

We ask you to remove these exemptions. There may have been a need at one time to stimulate this segment of the industry, but we suggest that was not meant to penalize the rest of the industry, and clearly it does. The tax system should apply fairly to all. It should not favour any group within a sector over the other.

1610

An issue has also developed relating to the own-use payment of PST on promotional items. For example, if an owner purchases a sweatshirt and gives it away to someone with an expectation of it generating future business, PST must be paid despite the fact no money has changed hands. Federally, the GST is not collected on that basis, because no money has changed hands.

We suggest this issue could also be looked at from the perspective of lessening red tape. Perhaps the province could adopt the same position as the federal government. This could also take the form of bringing the province to the same position as Ottawa or providing an exemption for promotional material; we suggest up to a value of 5% of an operation's gross sales. It would provide owners with more opportunities to promote their respective businesses.

The industry continues to suffer from a totally unfair system of taxation on beverage alcohol, as noted by the government's own Red Tape Review Commission. This form of double taxation is not only a major reason for the ongoing non-performance of the hospitality industry; it also continues to promote the perception to our out-of-province visitors that Ontario is a high-tax, high-cost destination.

Hospitality operators are taxed twice on beverage alcohol, a flat 12% tax plus an additional 10% PST; in essence a tax on a tax. Manufacturers are also subject to high taxes on their products. For example, distillers pay a tax of 83%. Brewers and wineries all pay similar taxes. In addition to these taxes, the industry is also subjected to other levies and fees.

The net result is a product that costs too much and one which we suggest has reached the proverbial tax wall. Proof of this statement is the high incidence of illegal product that continues to flood the province. This influx of illegal product is costing jobs and tax revenues for the province. We suggest the province look at introducing a fairer system of taxation, one that is fairer to the hospitality industry and still meets the government's social objectives in this area. The government has previously been provided studies which show that it can increase jobs and its own revenues by providing for a fair system of taxation in this area. We urge you to accept the red tape review panel's suggestion as it relates to this area.

The hospitality industry in Ontario is perhaps one of the only industries where there is not a wholesale price for its product. We also ask the government to assist the industry to help us bring this about. In doing so, we are not suggesting that it can only come about through privatization. We believe there are other ways and means for this to happen and we'd be pleased to discuss this with the appropriate people. Wholesale pricing must come to the industry if it's to regain its former vitality. Product costs cannot remain nearly double to that of our major competing jurisdictions.

The red tape panel also recommended that the industry be provided with the ability to purchase alcohol products on commercial credit terms. We applaud the panel for this recommendation as it provides the industry with the same treatment as the general public. We ask that this committee assist in moving this matter forward as soon as possible. It is something we have been waiting for for some time. This is simply a matter of fairness. Surely the government intends to provide the same terms of purchase to its licensees as it does to the general public.

Other provinces have allowed licensed owners the ability to have off-premise sales. This has worked very well for all concerned. It has provided the public with better service, it has enabled the government to be more efficient in the respective operations and has given licensees a much-needed source of revenue. This provision has been particularly beneficial in rural areas.

Licensees are already trained in matters related to the sale of beverage alcohol. This is done through an industry self-regulated training and certification program. Off-premise sales have not caused problems in other provinces, and with the proven capabilities of the industry here we suggest this to be a win-win scenario for all the stakeholders concerned.

Northern Ontario has been slower than the rest of the province to see the positive signs of a recovery in our industry. One of the reasons appears to be the high cost of gasoline. Gas costs in the north are about 15 cents a litre higher than they are in the rest of the province and visitors appear to be speaking out by their absence. We would ask this committee to look into these inordinately high costs, as they are having a dramatic negative impact. The vast majority of our northern tourists arrive by car. Further, the majority of activities, snowmobiling, boating

etc, require gasoline. Hence the price of this product can be a major consideration in the choice factor.

Infrastructure is important to our industry as well. In particular, roads are our industry's lifeline, and with the demise of the railroads as a means of moving goods, so too for the rest of the economy. Just-in-time delivery is a fact of life today and for it to work, it is essential that Ontario have a good highway network. Last year, 1996, almost five million automobiles came into Ontario from the United States, the majority of them we believe for tourism purposes. As an aside, that figure is down 4.5% from the previous year.

If we expect them to continue to return, let alone to tell their friends what a great place Ontario is to visit, it is imperative that we have a road system that is in a state of good repair and safe. Unfortunately, Ontario's highway system is starting to see the results of years of neglect. We appreciate the commitment of the Minister of Transportation, Al Palladini, to increase the budget for resurfacing and maintenance. It is a good start, but it must continue. We urge you to ensure that this initiative remains a high priority.

The government has introduced Bill 106, which will bring fairness to the property tax system once it is passed. The key to having the government's objectives met is the setting of the variable tax rates. It would be truly unfortunate if the benefits of property tax reform were to be negated by rates which allowed respective municipalities to thwart the government on this issue. We suggest this aspect of property tax reform is as important as the passage of the legislation itself.

In conclusion, the initiatives the government has introduced are helping to bring about a better business climate for our industry. However, it has still not recovered, but the measures we have suggested will go a long way to restoring the economic health of our industry. It is an industry which provides point-of-entry jobs to our youth and to those who are looking to re-enter the job market. It is also an industry which provides government with substantial tax revenues. Best of all, it is an industry which responds immediately to an increase in demand by hiring more people.

We ask that you view our suggestions as providing our industry with a level playing field on the one hand and a prudent business investment on the other.

Thank you very much.

Perhaps as an aside to Mr Kwinter: Note the GST harmonization.

Mr Jim Brown (Scarborough West): Welcome, Mr Seiling. On page 3, I noticed that you talk about one of my pet peeves, which is the financial community. I suspect we're talking about the chartered banks, but I'm not quite certain about that.

The Canadian Federation of Independent Business was in and said that 30% of their members had a problem with acquiring capital for modernization or expansion. They represent the companies already in existence, certainly not new companies, and I think the statistics on new companies would be even higher than 30%, probably about 80%. As we all know, small and medium-sized enterprises create 85% to 90% of all new jobs.

I'm wondering what we could do to increase the amount of competition to the existing narrow lenders, ie, the chartered banks. We've talked about expanding the role of credit unions, but there's only been one new credit union in the past 15 years because of red tape. We've talked about expanding the role of trust companies; they can't loan to small business unless they've been around for five years. The labour-sponsored investment funds are sitting on $800 million worth of investment and they're not going to give it to the little guy, and their average deal size anyway when they do make a deal is around $2 million. What can we do to help the little guy and the not-so-little guy in the tourism business?

Mr Seiling: There are a number of things. First of all, you're right, the banks have not changed their attitude one iota towards this industry. Funding is not available, period. For the most part, any funding is offshore, as I said, unless you've got the resources to pledge. It's not a joke that people are out there saying, "If I pledge my first-born, I might get through the door, but I'm not even assured of a loan." That's not my quote; that's people from the industry saying that to me.

Part of the problem is that there is not an understanding of the industry within the banking community, and second because especially the small and mid-sized operators are not sophisticated enough to come in with a fancy-dan business plan which has all the bells and whistles and more than likely with a consultant sitting beside them. While large businesses, by and large, are able to do that and have the wherewithal internally to do those things, there's a reluctance.

Of course, in fairness, we mustn't forget that during the recession it was this industry that was just decimated, so there were a lot of losses in the industry. Conversely, it's one of the areas that has the largest opportunity for growth. The world has discovered tourism. Unfortunately, our bankers haven't discovered the possible returns for it. As I said earlier, our competitors around the world are investing, they're building, whether it be attractions, accommodations, whatever. Tourism is going to be the number one business in the world in the not-too-distant future. Either we're going to get on board and grab some of that or we're going to miss the opportunity.

Mr Wettlaufer: Rod, I went out west last summer. The Germans and the Japanese I saw in Alberta fascinated me because I saw so many of them compared to what I was seeing in Ontario, and your numbers reflect that. One of the things I heard was: "We've been to Ontario. We've seen Ontario." Then, in further elaboration, they mention that they've seen Niagara Falls; to them, that was Ontario. What specific suggestions would you have to encourage more awareness with those tourists?

1620

Mr Seiling: It's simply marketing. The cutbacks in marketing have been so dramatic and —

Mr Wettlaufer: Specifically, though.

Mr Seiling: You need programs. We know we have the product here. People come back here an average of seven times. They wouldn't come back that many times if they didn't like it. We know we have the product. What's happened, if you look at chart 3, is that the

awareness level is decreasing simply because we're not in the market any more.

What's even more frustrating to us in the business is that the federal government has put this wonderful program in for matching dollars and there simply isn't the ability to match it. Tax dollars that Ontarians are paying to the federal government are now being used to compete against us, to siphon off that market into other provinces. We are still getting a share in our market; in actual numbers it's growing slightly, but we're not near reaching our abilities.

Open skies is going to help. What's happened and what has to happen is what we call a spoke-and-hub. Toronto is the major gateway for this province, for this country. Working with operators in conjunction also with good marketing programs can take people out of this hub here and spoke them out to the rest of the province. It's a strategy that's being worked on.

As I referenced earlier, there is some work going on with the ministry right now. We believe we can make a business case to the government to show there's a reason to invest. Unfortunately, the industry has no one to blame but itself. It's allowed these cutbacks to happen and not said anything over the past five or six years, to its detriment. It hasn't made the business case.

Quite frankly, tourism hasn't been on any government's agenda for so long, everyone's missed the boat. Yet it's the best industry around, I would suggest, for hiring young people, for getting people back into the workforce, whether they be new Canadians or people out of a job. There are excellent careers in it, but it's that transition of getting people to learn how to work, to get them to get back on the path, whether they've lost a job or they're making a career change or whatever. There are great opportunities. I like to call it a port of entry or point of entry. It is that jumping-off point to get back into a job, get back into the workforce and to get your life back in order.

Mr Kwinter: You make a good point about the cutback in funding for tourism per se. One of the major problems, and I'd like to get your comment, is that we at one time had offices around the world. Contrary to what a lot of people thought — they didn't quite understand the role of those offices. It wasn't just trade offices; there were also agricultural sectors but primarily tourism reps.

Tourists, regardless of whether they're from Germany or Japan, have lots of alternatives. They have money in their pocket and they can go anywhere they want to go. Unless there's somebody there showing them why they should come to Ontario and they can have that one-on-one discussion, you're going to lose a lot of that tourism dollar. Do you agree with that?

Mr Seiling: Quite so. There's so much competition in the marketplace and every country has jumped on the tourism bandwagon. If you're not in the marketplace, they're going someplace else. It's clearly a case that you're either in the business or not in the business, and in terms of tourism, for whatever reason, Ontario got out of the business. Yet it's a great opportunity to create jobs and give government tax revenue. On point of return, we have to be one of the more heavily taxed industries in that for every incremental dollar you bring in, close to 30 cents goes back into direct tax revenue, not even indirect.

Mr Kwinter: Over the last couple of years when you've appeared before this committee, you've chronicled the woes of the industry in the way that occupancy rates were down, room taxes were high, the costs of operating were excessively high. There virtually wasn't a hotel that wasn't in financial trouble.

I track this industry fairly carefully, and I've noticed in the last few months that there has been a total turnaround, not necessarily in the industry but in the ownership. At one time there was a standard joke about hotels and AIDS: You've got a hope of maybe getting rid of AIDS, but you'll never get rid of a hotel. That has changed very dramatically. I notice that hotels are changing hands, with foreign investors, American investors coming in. There aren't a lot of Canadian investors, and that's the point you make in your presentation. What is the attraction for these foreign investors that is not being equalled by Canadian investors or people who actually own the properties at the present time?

Mr Seiling: There are a couple of things. First, what we're seeing is lending institutions finally getting rid of properties, but they're still getting rid of them at fire-sale prices, approximately half replacement cost. You're quite right, especially here in Toronto, which was decimated by a very inequitable property tax system, which Bill 106 is going to address positively. We're very much awaiting its passage.

But the average full-service hotel replacement cost today is about $160,000 to build per room. For example, the Delta Chelsea just sold for $80,000 per room, and everyone said, "See, the industry's great. Everything's fine; everything's wonderful." I don't equate selling something for half its cost as being a sign of good times. It's gotten better. Occupancies are starting to turn around, but average daily room rates are just barely passing the mark they were at back in 1988. I don't know of any other product that you can buy in 1997 for the same price as in 1988; we've absorbed all the cost in between. But you're right.

The third part to your question goes back to Mr Brown's question. Off-shore companies and US companies see Ontario as good value and they're going to invest here over the long term. It's a safe place to park money and they're looking for the long-term return. There's no Canadian money available, so these institutions are selling off to whoever's got the dollars, and these other people that have the dollars are going to buy, and they are buying.

Mr Kwinter: Every once in awhile you get a Mrs Lai who goes into Niagara-on-the-Lake and pays over $200,000 a room.

Mr Seiling: That's right, and she owns every property in Niagara-on-the-Lake now.

Mr Pouliot: I marvel at your choice of words. I must admit it's the first time, by way of analogy, that you would pledge or mortgage or use the first-born as collateral. I'm not so sure this would improve — what about the first-born seen by the lender as a liability? It certainly would not enhance your potential. Mr Brown, perennial and residual — with respect, you can always rely on my

distinguished colleague. He's not very compatible with bankers; he doesn't like bankers. Some of us to the left of Mr Brown suspect that he has two problems: one is collateral, and the other one is cash flow. Some others would go as far as to say that Mr Brown is a capitalist without capital.

You hit us with the prospect of a New Jersey, a dossier followed very closely by the regime du jour, the present administration. Tourism is forgotten. It seems that when things go well it's the last budget to be increased and when things go badly, it seems in the minds of many to be expendable. Almost inevitably, when the formation of a cabinet is made, the Premier and one or two advisers, the ministry of tourism and recreation is — you know, health is the big thing. If you can have finance, you're okay, but it's fair to say that tourism and recreation is not given the importance it deserves. Yet when you bring forth the multiplier, it's very good.

1630

In order to compete, we know we don't have the weather. We're not the Floridas and Barbadoses of this world, and there are so many beautiful and exciting places. We're also aware, given that our neighbours are 266 million to 270 million people, of the impact of the difference in currency.

I have a question. You haven't mentioned the minimum wage. I've been listening to presentations and laments for 12 years here and I'm losing my feel for it because some of the briefs were so predictable. You mentioned the tax on booze, the double taxation left and right. Compared to other jurisdictions — when we travel we look at state tax, we look at entertainment tax, we look at the tax that's hidden in a cup of coffee which is the cost. If we go to Europe, this place is a bargain, really.

If you had to focus on the one tax you would like to see reduced — I mean, not me; I have as much clout as Mickey Mouse, but the people here who have the majority — which one tax? Would it be the tax on rooms? Would it be the sales tax? Would it be the GST? Would it be the tax on spirits? Which one would it be?

Mr Seiling: I don't know whether you can point to one tax. I represent a broad industry. Those in the hospitality sector would certainly view the unfair taxation system on alcohol as being their prime; some others would view indirect taxes as another problem.

You mentioned the minimum wage earlier. Certainly we're very pleased the government has frozen it, because it is a real detriment. What we've seen is that every time the minimum wage was increased, we just hired fewer people.

Mr Pouliot: A hundred and twenty bucks a week is a lot of money to live on. You ought to try living on it.

Mr Seiling: If you're a student, $120 is better than not having any job. If you price that job out for what the return is, it's simply not filled. The net losers are the students and young people who are trying to enter the workforce. It's been proven time and time again. I know you have a different opinion, but the facts and figures would disprove you on that.

The Chair: Thank you, Mr Seiling, for coming in and presenting your case before us. I was interested to see the third party defending banks and the government asking questions about them. Things go round and round in this committee. Thank you for your presentation.

AUTOMOTIVE PARTS MANUFACTURERS' ASSOCIATION

The Chair: We now welcome the Automotive Parts Manufacturers' Association. Mr MacDonald, welcome to the committee.

Mr Ken MacDonald: We're very glad to have this opportunity to speak to you today. The association represents Canadian producers of parts, materials, equipment, services and suppliers of same to the worldwide automotive industry. Together, these producers generated about $22.5 billion worth of GDP in 1996, mainly in Ontario, and they employ collectively about 92,000 people, Canadians.

We are pleased with the general direction the government is taking. We have not come to second-guess their decisions, but only to offer, for two areas of particular concern, the benefit of our experience as managers in an extremely competitive and, may I add, strategic industry. For this consultation, several of our members gave their views. Those two areas are technical education and the public health care system.

By far the greatest concern facing our industry is the shortage of young people with suitable technical training. The automobile parts manufacturing industry has become one of the most technologically sophisticated industries in the world. Increasingly, parts makers are assuming more and more responsibility for the design of the parts they make, and those parts themselves are becoming far more sophisticated than in the past. I'm sure you'll know from reading advertisements of the advent of computerized brakes and ceramic parts as two examples.

There has never been a greater need for engineers, tool and die makers, quality control technicians and other technical people. Secondary and post-secondary institutions are not keeping up with this rising demand, in part, we think, because the cost of providing technical training per student is significantly higher than for other programs. Operating grants neither reflect this cost nor the importance of technical training for Ontario's future growth. At the post-secondary level, affordability becomes an additional concern, that is, affordability for students, a concern about access.

Employers cannot take over from the schools and colleges the full responsibility for technical education. Our industry already has its hands full with keeping pace with the rapidly changing needs of our workplaces through on-the-job training. It is imperative that school, college and university programs that teach technical skills not be limited or curtailed and that access not be hindered by a hefty tuition fee or an underfunded student assistance program.

Turning to specifics, the provisions in the provincial grant regulations under the Education Act relating to technical education costs and grants do not go far enough to assist school boards. Take, for example, the cost of instructional computers and tools to be used in teaching industrial arts courses. For instruction in CAD, computer-

assisted design, the necessary server and 10 linked terminals cost together about $35,000. Assistance through the legislative grant is limited to roughly $20 per student per year, or for a secondary school with average enrolment, about $17,730. I'll just add parenthetically that the regulation sets out a more involved, more complicated formula, but speaking to the manager of capital programs in the ministry, that's roughly how it breaks down.

Clearly that limit needs to be raised considerably. Even the $10-million technology incentive partnership program — I call it TIPP — in which the province matches corporate donations for technical education, doesn't close the gap because it is limited to programs in grades 1 to 3.

We recommend that the legislative grant limits be increased and that TIPP be expanded to include purchases of equipment for programs in grades 9 and up and that its budget be doubled accordingly.

The repeated and deep cuts to university and college operating grants and the resulting increases in tuition we have witnessed in the past few years must stop. The cuts in 1996-97 alone were 16% and 15% respectively and came on top of the cuts of several previous years. Ontario's operating grants for universities and colleges per capita are now only 68% of the average of the other nine provinces and, per full-time equivalent student, 75% of the average. The share of costs borne by students has risen since 1986-87, from 10.5% for colleges and 18.2% for universities up to 24% and 33% respectively. Average tuition is almost $3,000.

Shifting this cost burden and the resulting hefty tuition fees reduce accessibility to post-secondary education and thus reduce the availability of people suitably trained for our industry. High tuition would force many students, particularly those with siblings or students of modest means, to choose shorter programs of study or choose college versus university programs. This situation is not only inequitable but, from our point of view, very importantly would aggravate the shortage of engineers and other technical people.

Think too of this. Employers in cities without a wide range of college and university program offerings are uniquely disadvantaged with hefty tuition fees to pay as well as the burden of room and board. Local students would be that much less likely to enroll in programs outside of commuting distance. It would thus be harder for the local employers to recruit for positions requiring education not available locally.

1640

The Ministry of Education and Training discussion paper, Future Directions for Post-secondary Education, suggests that if it is the students who derive the greatest benefit from their education, they should pay the largest part. We believe that the beneficiaries of education include students but also business and the community; that it is inherently impossible to measure the exact proportion of benefit enjoyed by each; and that therefore proportion of benefit is no basis for determining the students' share of the costs.

An increase in the size of loans available through OSAP or assistance from the universities and colleges themselves would not satisfactorily address the impact of high tuition. Students are going to be reluctant to incur substantial debts, especially if they want buy a home or start a family within a few years of starting their careers. We therefore urge the government not to cut post-secondary operating grants further and to consider increasing them to the 1993-94 levels.

The recently enacted tax credit for employers' expenditures on cooperative education is a step in the right direction. The creation of more cooperative education work placements will stimulate the growth of cooperative education. That in turn will help ensure that secondary and post-secondary students obtain skill sets that reflect the job market. Note parenthetically that the creation of more placements is essential if the Ministry of Education's proposed mandatory cooperative education for secondary students is to be viable.

Unfortunately, the credit now is limited to 10% of the wages or benefits costs, to a maximum of $1,000 per placement. Breaking that down to perhaps a typical placement, four months in duration with $10 per hour the wage paid, the credit amounts to only $680 before you take into account the admin burden of claiming that credit. We suggest therefore that the credit be increased to 25% and that the cap be eliminated. That increase would benefit students as well as employers, and in the long run would benefit the whole of Ontario by attracting high-skill, high-wage industry to this province.

The second concern of our industry is the preservation of the public health care system in Ontario. That system gives Ontario manufacturers a significant cost advantage over their competitors south of the border. In 1995 KPMG did a comparison of business costs, taking into account labour, industrial land and construction, electricity, and transportation in seven different industries in a variety of American and Canadian cities. By far the largest component of Canada's overall cost advantage is the cost of hospital, surgical, medical and major medical insurance premiums. On average, those costs constitute 8.2% of gross pay in the US but only 1% percent in Canada. We therefore oppose any reduction in the range of medical services financed presently through OHIP.

My last point: We applaud the government's attack on waste in government spending and overall reduction in the size of government. However, we would like to see more pressure on managers and deputies to do more with less. The experience of our industry is that that indeed is possible. Your managers' performance, and not their seniority or the size of their departments, should govern their rewards.

Those are the major points. They are summarized at the top of the submission distributed. I'd be glad to take any questions to be of further assistance.

Mr Kwinter: Thank you very much for your presentation. There's something that just jumps out at me, and I would just like you to explain it to me. It may be right, but it just doesn't seem right to me. When you talk about the $10-million technological incentive partnership program which is matched by corporate donations and is limited to grades 1 to 3, what kind of technological incentive partnership program is there in grades 1 to 3? I don't understand how that works.

Mr MacDonald: That question crossed my mind too when I spoke to Carol Lawson, who is the manager of that part of the budget. If you look at the expenditure estimates for last year, there's a line for "Education programs — Other," which includes TIPP. She's evidently in charge; I spoke to her directly. She informs that it is a program limited to program offerings in grades 1 to 3. It must be a very basic introduction to technology. I am concerned that that's not the most important time to be presenting students with leading-edge technology.

Mr Kwinter: With all due respect, in grades 1 to 3 they don't have any mathematical skills, they don't have any reading skills, they don't have any writing skills. How can you possibly have a program dealing with technology that's aimed at grades 1 to 3? It makes no sense. With all due respect, I think there's got to be a mistake. I can't imagine anybody buying into a technological program aimed at kids in grades 1 to 3. It just doesn't make any sense. I am not saying that the issue is with you. I'm just saying that I would love to pursue that because it doesn't make any sense to me.

Mr MacDonald: It has to be a very, very basic introduction, no question. The information I've relayed to you is what's given to me from the ministry. The person I spoke to is the person who has responsibility for that area.

Mr Kwinter: Are you familiar with the program for training tool and die makers in Midland?

Mr MacDonald: Is it a particular college program you're referring to?

Mr Kwinter: No, it's an industry program. The industry got together and set up an institute to train tool and die makers up in Midland because they saw that there was a real need and a lack of that availability in Ontario.

Mr MacDonald: I've heard of a program of some sort in Midland, without knowing the details. I'll note in that connection, though, that the very occupation you mentioned, tool and die makers, is the one occupation for which the shortage is most keenly felt.

Mr Kwinter: The reason I mention it is that it is an example of where the industry tried to resolve the problem. We've had others do the same thing. I'm sure you know that at one time, Magna, which was certainly the largest auto parts manufacturer in North America at the time, had their own training program. The problem they had is that they were training people supposedly for their needs and these people were getting trained and going somewhere else. They decided that without government support, they were not in the position to subsidize training of workers for everybody, not only in the province but virtually in the world. That was a problem.

I take your point. We heard just recently that there is a shortage of 20,000 technologically trained people in Ottawa-Nepean, the sort of Silicon Valley area, that companies were going to the Maritimes because there were people who were trained there. I absolutely support the need to have people who have the training.

Mr MacDonald: To build on that briefly, I am glad you mentioned what you did. Our industry is one that serves the automobile assembling industry. I don't think it's hard to imagine how tempting it is for the assembler to look to the leading lights in their supplier company workforces as inexpensively trained potential recruits, particularly given that many of the rates of pay at the assembler level are very attractive.

Of course, as I've noted, while some companies have over time looked at spending money of their own on training — we have a Minister of Education and we have a college, university and school system. We ask that it be reformed, if you will, to best meet present job market needs.

1650

Mr Pouliot: Thank you very much. I'm most appreciative of your presentation. I see on your page 6 you say, "Your managers' and deputies' performance, and not their seniority or the size of their department, should govern their remuneration." Mr Frank Stronach at Magna must read this every day, for he is an extremely capable performer.

The present government has started to do some, but it's a lot more complex when the money is from the public purse to piecemeal — and I don't wish to vulgarize the term at all; I recognize what is being done and can find some agreement to it — whereas at the civil service, we don't run the same line. Opportunities are quite different. You don't make money with health. It's not a generator of money. People don't show a profit.

Health and education: I'm happily impressed and, candidly, just a little surprised that you choose, on behalf of the Automotive Parts Manufacturers' Association, to focus on education and to caution about health care. I too believe that the answer to, not everything, but the answer to most things is education, education and again education, to give people the tools to defend themselves and to integrate in society.

You're saying, "What about the die makers? There's a shortage," and yet we're faced with what seems to be a core unemployment rate. We know if you can ever get it down below 9% it would be almost hailed as a victory. It's been stuck at above 9% for some time now. Yet you're saying that people are concerned about the lack of skills and you feel there should be more emphasis placed — I know Mr Stronach does place a high emphasis, knows the importance and doesn't miss many opportunities, because he has a large audience, to remind people of the importance of education, and yet your universities are taking a hit, not blaming any stripes here — we're past that, I hope — but the style nowadays is you will see tuition fees take a big-time hit.

Hospitals and care, no matter how much you save, it always seems to cost more. There's just no end to it. I remember when we were the government, I talked to Ruth Grier — she was the Minister of Health for some time, and we had done a lot of cuts — and I asked Ruth, "As we end the fiscal year, how are you doing?" She said: "I'm happy, Gilles. Our budget will only increase by 2%." We had been debating for months and implemented some cuts. It's quite difficult.

I have no real question. I'm just so happy you focused on the demands of your industry, which are indeed the demands of society, and caution about true human dimensions, about the health care system, which places us at an advantage, in fact. Thank you, sir.

Mr Spina: Mr MacDonald, thank you for coming with your presentation. I'm really kind of puzzled. I anticipated perhaps a more constructive presentation with direct relevance to your industry. Certainly your point on the human resource need to me was very relevant to your industry. I'm surprised you got into the other issues. It sounded more like a student union presentation.

In any case, let me get back to the relevant point. Mr Kwinter talked about the 20,000 jobs in Ottawa, and that's valid. In my travels with industry here in Ontario, it's been very clearly articulated that part of the need is to come from education. You talk about this government ought to be saving money in its administration, which we are attempting to do. I think you can agree with some of the things we've begun to do in that regard so that we can reinvest where it is needed.

I guess what I'm hearing is what I would classify as an old-style expectation: "I'm industry. You're government. You put the money into the education system so that I can reap the benefit." What I would rather hear, and what I am currently in the process of encouraging — and I spoke with the Canadian Advanced Technology Association in Ottawa, a number of the players, as well as with them in a general meeting. They grumbled about the lack of resources coming out of the education system, and I put the challenge to them.

In your phrase you say the system should be reformed to meet industry's needs. I agree with you, the system ought to be reformed to meet industry's needs. You made that statement this afternoon. But, you see, we need industry to play a participatory role in that. So my question to you is — I feel that perhaps you should consider — shouldn't you consider that the industry could put some investment into the educational field in order to cultivate those graduates that it needs?

Your comments on the tax credit, recommendations on the tax credit for co-op education, those are very good recommendations, and I thank you for those. It's those kinds of recommendations that I would encourage you to expand upon and tell us some other things that we could do. I would also challenge your industry. Is it a viable consideration on your part to put an investment into the education system to better help develop apprenticeship programs, whether it's high technology, computer, CAD-CAM design — and those can be considered apprenticeship programs in the modern sense as opposed to the older style that we traditionally perceive as apprenticeship programs — to be able to better develop that graduate base for your industry?

Mr MacDonald: First off, you characterized part of the presentation as though it belonged to a student union presentation, without first having asked perhaps for elucidation of what I intended. I gather you're referring to the tuition. I gather that —

Mr Spina: Specifically —

Mr MacDonald: — and I had clearly indicated there is a relationship between the amount of tuition a student is asked to pay and the likelihood or the possibility of that student being able to attend those programs. That links, I would think clearly, back to whether or not you have a supply of students with the training we're speaking of coming out the other end, graduating and being available for service in the industry. So tuition can hardly be exclusively a student union issue. Clearly, it's an issue that impacts a great many more constituents than they.

Mr Spina: I respect that, but just to dwell on that point then for a moment, I was asked by students who say, "Look, you know, when I graduate, I'm going to owe $30,000," and your point is well taken. People who come out of post-secondary education want to get on with life and be able to buy a home and have a good job and so on and not be burdened by a debt of that size. I would put to you that I know a young man who finished university in 1973 who owed $8,000, and the starting salary was $8,000. Today, if the student owes $30,000, to me it's proportional, because that graduate will have a $30,000 income to be able to begin. So to me it's proportional.

The question is whether or not they have jobs, and I respect that very much. That's where I would want the industry to put the onus on us together to work to create that job environment so that these graduates will be marketable.

The Chair: Do you have a closing comment, Mr MacDonald, please?

Mr MacDonald: Yes. I was going to say that I hear your comparison of 1997 to 1973, but I'm not sure that I can extrapolate much beyond the instance that you cited of a single person in 1973, first off.

Second is that, as you've heard alluded to already around the room, there is investment from the employer end. You've heard it from me, you've heard it from Mr Phillips, you've perhaps read it in the newspapers and you heard about Magna, for example, so it's not that there is no investment going on.

There are two points. First, there is already a post-secondary and secondary structure in existence in Ontario. You don't simply let that atrophy on the vine. Presumably, you don't go back to the early part of the century when education and colleges and universities were focused upon religious concerns and not upon professional. If you're going to have professional offerings or occupational offerings, as you have had now for a great many years, presumably those occupational offerings ought best be made as relevant as possible to the government of the day, not of 20 years before.

You're granted therefore that the college system, the university system has as part of its mandate the training of individuals for occupational goals. Hence it makes sense to keep those offerings up to date. That's the point I'm trying to make.

The Chair: Thank you very much. We appreciate the Automotive Parts Manufacturers' Association for making their presentation here today.

1700

ONTARIO ASSOCIATION OF INTERVAL AND TRANSITION HOUSES

The Chair: We now welcome the Ontario Association of Interval and Transition Houses. I understand that Eileen Morrow is making the presentation today. Welcome to the committee. We have 30 minutes to spend together. I understand that you are carrying the ball. The weather outside is becoming worse.

Ms Eileen Morrow: Frightful, as a matter of fact, and apparently it's even more frightful in Owen Sound, so my colleagues have been prevented by high winds and freezing rain from travelling that distance. I didn't think it was fair to expect them to give so much to the cause that they would be prepared to risk their lives today, so it's just me. What I'd like to do is just read our written presentation and then I'd be happy to answer any questions you might have.

My name is Eileen Morrow and I'm the lobby coordinator for the Ontario Association of Interval and Transition Houses. On behalf of OAITH, we would like to thank the committee for the opportunity to speak with you again about the issue of violence against women by their partners.

OAITH is an association of 60 women's emergency shelters and other front-line services working specifically with women who are abused by their partners, and with their children. OAITH members represent the majority of emergency shelters for abused women and their children in Ontario. It is the largest association in Canada of its kind.

This is the second time we have appeared before the standing committee under the present government. Last year we came to give you information about the work shelters do within their communities and about the expertise provided by shelters and OAITH to previous governments during many consultations on the issue in the past. We told the committee about the high financial costs of violence against women if it remains unchecked. We also explained the initial impacts of present government budget cuts to our services and the other supports women and children need to escape violence.

We outlined the national and international commitments made by Canada to provide support and services to address violence against women and children, commitments that are binding on provinces. Finally, we reminded the committee of promises made by the Conservative Party before the last provincial election, promises to provide the services women and children need, including increased women's shelter services.

Last year in our presentation we asked that this committee endorse the recommendation of the 1991 standing committee on finance and economic affairs in support of 100% block funding for emergency shelters for abused women. Failing that, we asked you to restore funding cut from already cut and underfunded services and supports for abused women and their children. We specifically noted our suggestion that court surcharge fines be used to set up a fund to restore funding cuts from independent front-line women's services as a result of provincial downsizing and restructuring.

In the subsequent report of this committee to the Legislature on its pre-budget deliberations in April 1996, no attention was given to the issues raised by OAITH in support of survivors of violence. This committee evidently chose then to remain silent and to take no action on these issues.

Sadly, violence has not been made silent or inactive in Ontario. Since we last came here to plead for your support and action, at least 20 women have been murdered in Ontario by their male partners. At least 22 children have been left motherless and two have been murdered with their mother. In many cases, at least seven that we know of from media reports alone, the killers were out on bail or under restraining orders to stay away from their partners.

While these murders are tragic, they are only the tip of the iceberg of the violence women and children all over the province are experiencing. The truth is that most abusers repeatedly commit atrocities on their partners and children without ever murdering them. They use a range of tactics from social control and emotional abuse to physical and sexual assault to establish and maintain the power and control over their family that they believe is their right. This is happening even as we sit here to discuss it.

As a result of efforts primarily by independent women's services and their supporters, public awareness of violence against women has grown significantly, and there has been an encouraging increase in support for survivors and their children over the past 20 years. Women who live and work in shelters and other front-line anti-violence services know that they are using their personal resources to the limit in addressing issues for women and children. As agencies, front-line services know they try to use their limited resources in the most effective and efficient ways to protect, support and inform survivors of violence and their children. We can assure you that women's anti-violence services have not contributed to the deficit in Ontario.

Violence against women is an intractable enemy. Every second woman living in Canada today has experienced at least one incident of criminal violence by a man since the age of sixteen. That's from the violence against women survey from Statistics Canada. That statistic can't be altered without significant public resources dedicated to providing safety, counselling and advocacy for survivors and their children, accountability for abusers, public education and prevention programs.

Instead, we've seen cutbacks to every support that women and children need to escape violence, including to front-line emergency shelters. Initiatives that have been taken by this government were not necessarily the most efficient and effective use of scarce resources. For example, last year this government took $9 million from women's independent anti-violence services. In spite of our recommendation to this committee that the fines surcharge fund be used to support those front-line services, this government allocated most of it to gender-neutral court and police-based victims' services where only women who report to police will be served. Out of this $10-million victims' assistance fund, only a small amount was made available to community-based services of any kind, and then only for one-time grants.

Last year we outlined some of the ways women and children suffered as a result of the cuts. Since then, we have continued to collect that information from shelters. A report entitled Locked In, Left Out containing the results of our information collection and a number of direct testimonies from survivors themselves was released to all of you on November 18, 1996. We would urge those of you who may not have had the chance to read it thoroughly.

Our information collection, although informal, showed that violence survivors were continuing to suffer in violent relationships as a direct result of social program cuts in Ontario. For example, 50% of shelters in our membership reported that women are now able to use the shelter only as a temporary relief from violence, rather than as a new start. Two thirds of our members reported that social assistance cutbacks have been the deciding factor for women in their shelters returning to abusers. In some shelters, two thirds of the women returning did so because they couldn't feed their children on social assistance or welfare. Legal aid plan cuts and restrictions are another key factor in women's decisions to remain in abusive relationships.

Since our last presentation here, we'd like to touch on a couple of additional initiatives taken by the government which had their impact on survivors and shelters for abused women. One is the decision of the government to assume responsibility for abused women's shelters at the provincial level and to absorb the 20% of the per diem for an abused woman's shelter stay paid by the municipal level. This is a decision we welcome, for a couple of reasons: one, the devolution of abused women's shelters to the local level would have been disastrous for many women in Ontario, particularly in smaller and northern communities; in addition, we have long argued that the per diem funding arrangements were administratively awkward and financially insecure.

1710

The transfer of per diem funding to the provincial level, however, has not reassured us that the discrepancies across the province created by the per diem will be eliminated, and we would like to ask this committee to consider that problem. In addition, we would like to stress that the absorption of the per diem will not represent full funding of shelters as first announced by the Minister of Community and Social Services in her press statement regarding the decision. Women's shelters continue to be required to fund-raise a significant portion of their basic budgets. Indeed, we would like to see full funding of all shelters.

The second initiative we would like to comment on is the controversial report commissioned by Dianne Cunningham, minister responsible for women's issues, entitled Framework for Action on the Prevention of Violence Against Women in Ontario. This document has serious implications for the funding of strategies to end violence against women in Ontario. In particular, it recommends that the province shift from providing crisis intervention in women's services to primarily providing prevention programs.

While we fully support increasing funding for prevention and education, have argued for their increase for many years and opposed their elimination by this government last year, we do not support any attempt to diminish the tenuous network of women's crisis intervention services we have struggled to create. We need both if we are to conquer violence against women and children.

It is our opinion that, assurances aside, if these framework recommendations were to be implemented, they would seriously jeopardize the independence of women's services for violence survivors and their children. Inasmuch as it proposes amalgamation and integration of independent women's anti-violence services into generic and gender-neutral organizations, the framework will not serve the needs of women and children to escape violence.

We know it is independent women's services which have challenged all of us to do something about violence against women and their children, especially about sexual assault, woman abuse and child witnessing of violence. It is these services and other women's grass-roots groups which have been the catalysts for progress in this area in all mainstream systems, legislation and public policy. Without them, we fear for the future of that progress.

We realize that the work of this committee under the present government agenda may be largely to find ways to cut spending, but we are here to ask that in this area you make your priority to save lives, not money. We were pleased by the announcement of Ontario Treasurer Ernie Eves on February 6 that the province is enjoying a windfall of sorts in unexpected tax revenue. With that in mind, we would like to make these recommendations to the committee today:

(1) That the victims' assistance fund allocations of the Ministry of the Attorney General be reassessed in order to provide more ongoing support for community-based grass-roots services for women and children experiencing violence;

(2) That the Treasurer free up some of the unexpected revenue increase of the province to increase funding support for abused women and their children within women's anti-violence services, as well as within other supports such as social assistance and legal aid;

(3) That this committee make a recommendation supporting a commitment to recognize the value of independent, community-based women's services and to protect funding for their work with abused women and their children.

(4) That this committee make recommendations to ensure that absorption of the per diem funding from municipalities does not result in continuing disparities of funding across the province, nor that it result in a decrease in funding for any transfer agencies receiving it.

We thank you again for this opportunity to speak to the committee and we would be pleased to discuss these issues and recommendations with you further. I would be happy to answer any of your questions today.

Mr Pouliot: You're safe and sound here regardless of the conditions. It's pretty difficult for anyone, I suppose, not to be directly impacted and not to become emotional. You state in your brief that the situations, the atrocities, have not gone away. In fact, you point out to us some specific examples. You also state that while there has been a recovery, the government has chosen to spend fewer dollars.

I recall vividly, as if it were today, the acute recession of yesteryears when we were the government. No windfalls, very severe, and yet the money was there. I want to choose my words carefully. I don't have to, because I have immunity here, but I will nevertheless and I will be direct, and I don't wish you embarrass you, Madame, or make your situation uncomfortable. This is your brief and I respect you.

There is little difference in our system between parties, and I want you to have a good look at them. When it comes to the most vulnerable, people who can't go and rent the top floor of the Royal York, people who are ordinary or people who cannot run as fast, more vulnerable, there is a marked difference in philosophy and there is a marked difference in party. It doesn't mean that when people choose their priorities, they dislike, that they want to hurt. No, no. It's just that you remind me of the person who will pray for the poor but will hesitate to give five cents to poverty, but they will pray for them and they will wish them well.

It takes courage to come here. The situation is systemic. We need some education. They've done some of that and they're to be commended. But I fear that when the system gets rough — because in the meantime there's $5 billion over five instalments. I don't mind much of it, not as much as my colleagues, but I find it difficult to see that the more you make, the fastest you can run away, the better off you are, not because I'm envious or jealous, Madame, no, no, I'm past that, I think, but because it is so bloody unfair. It makes so many people suffer, and you judge a society with the weakest link, and we are all on the waiting list. When somebody is in need — physical abuse, threats, murder at its extreme — you don't turn your back. You don't pretend to shuffle paper and write or read. You give a hand to those who need it the most. That's what society is all about. That's why we go to the polls.

I appreciate your courage and I hope that at every opportunity you come back and see us, because you must penetrate, because that work needs to be done. There is no way out. It goes beyond the political party. It goes beyond the rich and poor.

I have no questions. It's just that I'm appalled, especially when times are good, that you have been targeted because you're low on the list of priorities. Come back and see us again.

Ms Bassett: Thanks very much for making it here and for your report. There's so much in it. I don't want to make light of all your recommendations, but in the time I have — Mr Wettlaufer wants to make a comment too — I want you to explain, so that we come out of this with a message, more than the message you've given about Dianne Cunningham's report, the framework for action.

I preface my remarks by saying we are putting $100 million across nine ministries into women's shelters and violence against women programs, so it may be how we divide up the pie. I wonder, when you say the report "recommends that the province shift focus from providing crisis intervention in women's services to primarily providing prevention programs," can you just talk a little about the importance of having crisis intervention in women's services stay put as it is or to increase it, even. The report isn't going ahead, but I'd just like you to fill it out a bit.

1720

Ms Morrow: I could, no doubt, speak about the report for three and a half days and never deal with everything in it that needs to be explained or that needs to be questioned so that it could be explained. But I will say first of all that the report does not eliminate crisis intervention. It is part of a four-pronged description of what I suppose would be called a model, which is informally described in the report as the assault centre.

Ms Bassett: What I want, though, is what in your view is the importance of having direct intervention, as you see it, regardless of the report.

Ms Morrow: I guess this report would refer to that as a victim-centred model, in other words, focusing on working with women who have been abused by their partners, specifically in the case of our members and the women they work with. Crisis intervention in that case means you are responding to women who are grappling with and living with physical, psychological, emotional and sexual violence on an ongoing basis and its impact on their children, including sometimes direct physical and sexual violence against their children. Crisis intervention is that intervention which seeks to support that woman in taking action to extricate herself from that situation or to deal with that situation and keep herself and her children as safe as possible in that situation if she finds herself in the difficult place of not being able to escape.

Ms Bassett: Does that involve sometimes a person going in and helping out, be there in her home environment if possible?

Ms Morrow: Going into her home to help out would be extremely dangerous. It's not something that's usually done in a situation of violence against women and it's certainly not something that a woman who's experiencing violence would ask that someone do, other than to ask police to respond when there is no other option but to involve the law. Police officers' jobs are not to go in and take any other action than what is extreme physical crisis.

That's not what we mean by crisis intervention. Crisis intervention usually means the woman making contact or someone on behalf of the woman making contact with someone who can help, and sometimes the children making contact with someone who can help in that situation. Then you intervene to deal with the situation that is occurring right now which is imminently dangerous or which is dangerous on an ongoing, repetitive basis, so that there is a pattern of violence that is occurring and that needs to be addressed.

There's intervention and there's prevention, and we would certainly agree that if you could prevent violence from happening before it happens or you could prevent someone from learning the values that make them believe they have a right to use violence against others, that would be something we support and encourage. But I don't believe that gives us the right to abandon intervention strategies. The government has said it's put $1 million into this issue at the moment, and that will not change, so it's only logical then that if you were going to increase prevention and education strategies, you would need to allocate money out of crisis intervention. This report talks about shifting, so that's the message to me, that services will need to be downsized in order to accommodate new strategies.

Mr Wettlaufer: Over the course of the past year I worked in my riding of Kitchener with a committee of health caregivers, psychiatrists, physicians, nurses, hospital spokespeople as well as police, a multicultural

centre, victims, and what we were trying to do was make recommendations to the minister and establish protocols if we could. One of the things that kept coming back over and over again was that this is a generational thing. It's something we're not going to conquer in five years or 10 years, but it's going to be conquered in a generation only through education.

One of the recommendations that was made by our committee to the minister was that we establish a format for education through the school system. I know some of your lobby groups think that the best way to educate is through women's shelters. Can you comment on that?

Ms Morrow: I think that independent women's services that speak every day, 24 hours a day to survivors of violence are often current to the absolute minute that violence is happening and the response to it and whether that response is helping, so I believe that front-line women's services and front-line services in general that are speaking directly to survivors are in a very favourable position to be very potent educators. That is not to say that no one else can educate, but I believe that it would be misguided to shift funding out of those front-line educational efforts into others. It would be more appropriate to include all those who are prepared to do education, because we are talking about a systemic political, economic and social problem, and it's intractable and pervasive.

I worked as an educator in a shelter. That was my job, and I can tell you that it's not an easy matter to go and educate. It's not just a matter any more of saying, "Violence is bad and you don't deserve to be hit," and basic education like that. We now have a much more complex task, which is to explain the many complexities of how and why and who and what we're going to do about it.

The questions about violence against women, for instance, and its impact on the children you receive in an educational forum are much more complex because the level of basic education in the community is higher than it was. It's not just a question of someone asking what used to be the traditional question, "Why doesn't she leave?" as opposed to "Why does he hit her?" — there's a reason why the question is posed one way instead of the other — it's explaining why that question is posed that way instead of the other or all the complexities of questions that we now get, like, "If this happens, what does it mean and if that happens" — so it's all very complex.

I certainly wouldn't say that only one particular group can educate. Anyone who educates themselves on this issue in a complex way can educate. Anyone who says to someone they see being abusive, "That's wrong," even though they may not themselves fully understand the complexities of why it's wrong, is educating by proposing a counteropinion, an opinion that doesn't support violence. We have no problem with the education system educating on violence. They're strategically placed to do that.

We would have a problem, however, with women's shelters then being told that they should not be educating on violence or that they're not an appropriate place to do that education, because they speak with survivors and actually survivors are the number one educators on violence against women. There is no one in the world who has ever taught or educated on this issue who didn't get their training from abused women and their children.

1730

Mr Kwinter: Thank you very much for your report. There are some elements in it that are really very disturbing. Can you just enlarge on the statement you make here that 50% of all women in Canada over the age of 16 have experienced criminal violence? That is a damning indictment of our society. I have to take it at face value that that is the case, but I can tell you that the average person, if that is the case, is certainly not aware that is happening. I'd like to get a bit of a definition of what you consider "criminal violence."

Ms Morrow: That statistic comes from the national Violence Against Women Survey that was done by Statistics Canada in 1993. They chose a definition. Anyone who deals with the issue of violence against women has to define what that is. Regrettably, in the report you referred to it was not defined, so we really don't know what the problem is that we're dealing with there.

In the national survey it was defined as incidences of violence that could be charged under the Criminal Code. In other words, it would be physical and sexual violence and threatening death, those kinds of things that could be categorized under the Criminal Code of Canada as acts of violence. It didn't include psychological threatening or threats that couldn't be categorized as violence, which many women receive. For instance, "You leave me and we'll see who gets the kids," is not a threat under the Criminal Code of Canada, but it would be used all the time; that kind of thing. It was only very restricted to what could be considered — because they wanted to narrow it in such a way that it could be legitimate research, where they knew what the parameters were.

In that context, over 50% of women in Canada over the age of 16 said they had experienced that kind of violence at some point before the interviewer spoke to them.

Mr Kwinter: That survey was done in 1993. Have you got any statistics that show if that is on the increase, if it is steady, if it is decreasing?

Ms Morrow: No, I don't have any update on that. That was the last large survey done in Canada. We unfortunately don't have the resources to conduct that kind of research. Research that's being done right now seems to be focused more on what it is costing and those kinds of gaps that we haven't addressed before.

Mr Kwinter: To get to another subject, one of your major concerns, of course, is the funding for intervention, for education and also for the transfer of the funding from the municipalities to the province. Have you taken a look at the potential implication of the proposals that are being made to transfer education from the municipalities to the province and to transfer to the municipalities some of the costs of welfare, things of that kind, and how that's going to impact on your programs?

Ms Morrow: It certainly will impact on the women who are hoping to leave a violent situation. Right now, the reduction in social assistance has been one of the most dramatic barriers to women leaving a violent situation. Many women who are in that kind of relation-

ship are not allowed to access money in the family or can't control it, can't access it even if it's available, or sometimes they're not permitted to work and so on. Even if they have financial security, it will take them a long time to access it through the law. So for some period of time they will be in need of temporary social assistance if they leave their partner.

That's a very serious concern, because if women feel they can't pay for housing, can't find adequate housing that's safe and can't afford to feed their children, then it's a very huge barrier to women leaving a violent situation. Were that to be increased by a shifting of that responsibility to the local level and various local levels making different decisions about what they will and will not provide in terms of social assistance supports of various sorts, that could make a dramatic difference. It would certainly add to the discrepancies for women in different regions of the province being able to access freedom, basically.

Mr Kwinter: Do I have any more time?

The Chair: I was generous with the other parties, so if you want one more —

Mr Kwinter: No, if it's over, it's over; no problem.

The Chair: I appreciate very much you coming in. It's a very important subject and I'm very pleased that you did make the journey to make this presentation. We appreciate it.

Ms Morrow: Thank you. I'm surprised no one asked me a question about the only 13% of women who use abused women's shelters, because I have a killer response to that.

The Chair: If you'd like to give us a letter on your response to that question, you can consider it asked.

Ms Morrow: It comes from the same national survey, and if you look at the numbers, over half of the women they spoke to stayed in shelters, so that's a little bit more than 13% of 100% of women.

CHAMBER OF COMMERCE OF KITCHENER AND WATERLOO

The Chair: Our next deputation is the Chamber of Commerce of Kitchener and Waterloo. We welcome Mr Lemont and Ms Mailloux to the committee. We appreciate you making the trip today. We understand the conditions out there aren't all that great.

Mr Ed Lemont: Good afternoon. Thank you for inviting us to address you today. My name is Ed Lemont and I am the past chair of the federal and provincial affairs committee of the Chamber of Commerce of Kitchener and Waterloo. With me today is Rose Mailloux, chair of the federal and provincial affairs taxation subcommittee. I would just mention that I'm filling in for Ron Carther, the president of the chamber, who is ill today and could not come down to make the presentation.

The Chamber of Commerce of Kitchener and Waterloo is the product of a merger of the Kitchener chamber and the Waterloo chamber in 1992, a move which recognized the need to cost-effectively service the business community of the two cities. Our mission is to serve business in Kitchener-Waterloo and be its voice in the betterment of the community. Today this chamber has a membership of 1,304 businesses, representing all sectors of the business community. Our membership includes small, medium and large employers who provide thousands of jobs in one of Ontario's most progressive and economically productive regions.

The Chamber of Commerce of Kitchener and Waterloo is pleased to have the opportunity to appear today before the committee as part of the budget consultation process to comment on the fiscal issues facing the province. We are strongly of the view that it is of paramount importance to the fiscal health of both the provincial treasury and economy that government measures and operations be reduced to avoid ever-increasing tax burdens.

Both business and the general public have clearly indicated such tax burdens are no longer to be tolerated. In order to achieve this primary goal of smaller and more effective government, we believe programs must be continually assessed as to whether the service (a) is still required; (b) can be done more efficiently via restructuring of programs, outsourcing or privatization; and (c) can be done by distribution of responsibility for program implementation to lower levels of government.

The key objective is to ensure that government operations are not themselves a growth industry but provide efficient and effective service at the least cost. It is through measures that display a keen sense of a trustee's duty to protect the public purse that public trust in government itself will again be restored. In this spirit, we offer the following comments for your consideration.

1740

Rose Mailloux: Our primary concern is the elimination of the deficit. We're not opposed to tax reductions, such as the personal tax reduction, the removal of the employer health tax premiums for smaller business and other actions, provided they do not hinder the ultimate goal of the deficit's elimination. Similarly, the government's support of R&D and any programs that improve our competitive position in the world and encourage investment in Ontario should be supported by all, provided they too do not encroach on the resources to be expended in the elimination of the deficit.

We also urge you to continue on after a balanced budget to maintain deficit-free budgets until the provincial debt is extinguished. If you find as time goes by that you are ahead of your target, do not give in to pressures to ease up. Continue to press on to reach the goal of elimination that much sooner, so that this short-term pain for long-term gain will be over with and the long-term gain can be enjoyed by us all.

Once fiscal measures have produced a balanced or surplus budget, it is imperative that you continue onward to reduce the debt, particularly while we enjoy a period of low interest rates and modest growth. If you fail to follow through on this key objective in favour of short-term partisan advantage in attracting votes via new spending programs, then we believe you will have failed in your collective responsibility as trustees of the public purse.

The next area we wish to focus on is the GST harmonization. The Chamber of Commerce of Kitchener and Waterloo has and continues to support the benefits of a harmonized sales tax system. Various studies since the implementation of the GST have concluded that harmon-

ization is the key to simplification and cost reduction for business while any regressivity for consumers can be addressed through tax credits to lower-income groups.

The Canadian Chamber of Commerce in its many taxation submissions to the ministers of finance strongly recommends a fully harmonized federal-provincial consumption tax. This system must meet six key criteria:

(1) It must eliminate the taxation of business inputs and the impact of tax cascading.

(2) It must simplify compliance for business and reduce the cost of administration.

(3) It must allow a common collection system with one administration and no duplication.

(4) It must provide a common understandable tax base used strictly to replace revenue forgone by removing the provincial sales tax.

(5) It must offset the negative impact of tax on lower income groups by an enhanced sales tax credit.

(6) It must be visible to consumers.

A recent survey by the Canadian Chamber of Commerce shows that 85% of the respondents feel that the chamber should continue to push forward to encourage the governments to harmonize the GST with the provincial sales taxes.

There have been numerous studies completed by highly reputable sources, including on the benefits of a harmonized system. Provincial government administrative cost savings of $40 million per year under full sales tax harmonization have been reported by the Fair Tax Commission in 1992. The reduced costs of compliance for the private sector are estimated to result in a $65-million increase in business productivity. These are resources which can be put towards tax reductions for consumers and improved competitiveness for business.

The submission of the Canadian Institute of Chartered Accountants to the House of Commons standing committee on finance in March 1994 recommended that the federal and provincial governments replace the GST and the provincial retail sales taxes with one multistage sales tax or value added tax with one single administration which would make use of the already great investment placed by government and by business on the implementation of the GST.

Another study, by the Canadian Federation of Independent Business, addressed the high compliance costs of the GST for business. The CFIB reports the compliance costs to be counterproductive for business, particularly smaller businesses. A survey in 1992 indicated that the compliance burden on large firms is much lower than the relative burden on small firms. Compared to compliance costs of administering the value added tax, the VAT, in other VAT jurisdictions such as the UK, Canadian costs can be almost 10 times higher as a percentage of tax collected.

They concluded that a major reason for this is that the GST was intended to be collected in conjunction with provincial sales taxes. While the GST system collects tax only 7%, in other countries with only one sales tax system they in fact collect between 12% and 25%. It's intended that both taxes be collected together. In addition to this cost of administering the GST, most businesses have the added expense of complying with the PST. It makes economic sense to put the resources together into the collection of one tax with one common administration and set of rules.

The piecemeal harmonization in Quebec and now the Atlantic provinces adds further unnecessary complexities to Canadian business, particularly with extremely complicated rules for businesses outside of the HST provinces doing business in those provinces. The requirement for tax-included pricing at the retail level is proving extremely onerous for national retailers. The long-standing commitment of the Canadian Chamber of Commerce is that the tax should be a visible tax, and certainly with the Atlantic provinces harmonizing now, we have an added level of complexity for business to deal with.

The provincial government raises $9.5 billion via the PST. Of this, about $825 million a year is embedded in the value of Ontario's exports; $2.8 billion is paid by business and is embedded in the price of goods and services we buy. Consumers may in fact be paying more like 9% or 10% in provincial sales taxes. Under a harmonized tax, this hidden tax would be removed, resulting in lower prices to consumers.

Government estimates show that a combined rate of 14% would result in just slightly less tax collected by the Ontario government. The broadening of the tax base to items currently exempt of tax may be softened by a lowering of the provincial component of the tax. A lower tax rate than the current combined 15% rate is obviously necessary. The negative impact of the tax on lower income groups may be further offset by an enhanced sales tax credit.

The removal of sales tax on business inputs and the reduced compliance costs of a harmonized system translates into reduced prices and increased competitiveness of our exports, which translates into jobs as our economy is further encouraged to prosper. Government estimates show that by removing the embedded PST by harmonization with the GST, Ontario's economy could get a boost of 1.7% of GDP, which represents $5.8 billion of production.

In summary, the chamber continues to recommend that the provincial sales tax be fully harmonized with the GST in the form of a value added, multistage federal-provincial sales tax as the best option for Ontario. This would have the characteristics of a single lower rate, a single administration and visibility to the consumer. The evidence is clear and studies support the efficiency of one harmonized sales tax system. Also, such consolidation of tax administration would seemingly be in line with your government's initiatives in other areas such as changes in structuring of municipalities and boards of education.

The Chamber of Commerce of Kitchener and Waterloo encourages the Ontario government to put aside partisan interests and enter into an agreement with the federal government to harmonize for the benefit of the province as a whole.

Mr Lemont: I'd like to make a few comments concerning the role of the province and municipal governments. The delivery of many programs and services to the residents of the region of Waterloo has been a joint responsibility of the Ontario government and local governments. Depending upon the program or service, the

Ontario government may directly fund and provide the program or service, or it may set standards and provide full or partial funding for the delivery of the program or service by local municipal governments.

Over the years, this approach has led to a maze of complicated funding and delivery responsibilities between the Ontario government and local governments. It is very difficult for the residents of Ontario to determine who is funding and who is responsible for most of the programs and services. This lack of accountability has caused the size of government to grow unchecked. The demands of local residents for ever-increasing programs and services have not been tempered by the financial responsibilities for such programs and services. Without a clear understanding of the cost of the various programs and services and a realization that they are paying for the programs and services, the residents of Ontario have helplessly watched as the costs of provincial and local government in Ontario have skyrocketed to unbearable levels.

The Chamber of Commerce of Kitchener and Waterloo firmly supports the Ontario government's attempts to disentangle the roles and responsibilities of the province and local municipal governments in the delivery of many programs and services. The disentanglement of programs and services is a necessary first step to impose fiscal responsibility on the provincial government and local government. The residents of Ontario need a clear understanding of what level of government is responsible for each program and service to allow each community to choose the level of program or service they want and can afford.

1750

The second step on the road to fiscal responsibility is the disentanglement and rationalization of local governments. Many regions in Ontario have multiple levels of local government providing duplicated and overlapping programs and services. The Ontario government is supporting these arrangements through its various grants and other funding arrangements to local governments. The transfer of funds to municipal governments is one of the significant components of the Ontario government's annual expenditures. The Ontario government needs to take a strong leadership role in reforming local government to reduce its commitment to local governments.

The parochial interests of many local politicians will cause local governments to continue to grow at ever-increasing rates with little interest in reducing the size of their responsibilities and authorities. The Ontario government has provided, and will likely continue to provide, considerable funding to local municipal governments. The Ontario government should exercise its powers, based upon its funding, to continue to reform local governments across Ontario.

The Chamber of Commerce of Kitchener and Waterloo, along with the Cambridge Chamber of Commerce and the conservative business association of Waterloo region, have jointly prepared a report and presented it to regional and local municipal governments to encourage the reform of our local government. Our three organizations represent over 2,000 businesses in Waterloo region. We believe the recommendations of our report could be used in many communities across Ontario, as well as Waterloo region, to improve local governance and consequently reform local government.

We have attached a copy of our statement "The Opportunity for Change in Local Governance," the report's "10 Steps to Move Our Community Forward," and the local government's responses. Please consider these reports in determining the funding for local municipalities and the necessary steps to streamline government at all levels throughout Ontario.

We trust and expect that a new era of fiscal responsibility permeates the budgetary measures to be recommended by this committee and adopted by this government. We appreciate the opportunity to make this presentation to the standing committee today and look forward to a continuing open dialogue on the above matters and others that may involve the business community.

Thank you again for the opportunity to make a presentation.

Mr Wettlaufer: Thank you, Ed and Rose, for coming and presenting today. I won't say the prime focus, but one of the prime focuses of our government was to encourage more foreign investment in the province, thereby creating jobs. As a result of our policies, we think there has been considerably more foreign investment in the province. Have you seen more foreign investment, more jobs, in Kitchener-Waterloo, keeping in mind that Kitchener-Waterloo was always a fairly good place to invest anyway?

Mr Lemont: I don't have specific statistics, but the general atmosphere would suggest that there has been some additional investment. There is certainly additional activity in the economy at the local level from small businesses, entrepreneurial businesses starting up. So there is activity there, some of it resulting from foreign investment.

Mr Wettlaufer: The Cora group was one of the most published investments in Kitchener. Are there any others of any significant size that come to mind?

Mr Lemont: Not immediately.

Rose Mailloux: I know that current business, particularly high-technology business, is expanding quite well in the Kitchener-Waterloo region. Some of our local companies have gone public recently and they're doing extremely well.

Mrs Ross: I just wanted to ask you about the harmonization issue. A lot of people are worried about harmonizing, that it would impose additional taxes. A friend of mine sent me a letter recently that said that in the Maritimes the harmonization has imposed an additional cost of $3,000 on the price of a new home. Do you have any comments on that?

Rose Mailloux: When the GST was first implemented, the same type of concern took place, because obviously the price of a new home has added on top of it the GST component. Previously it used to be buried in the price of a home. Under the old federal sales tax, it used to be buried in the cost of materials.

However, together with the GST, we have an offsetting rebate for certain-priced homes so that the purchaser can apply for that rebate, and that theoretically is supposed to bring the tax burden back down to what it was under the old FST. I would think a similar type of thing would

have to take place if the PST component was added on to the price of a home as well, because obviously you do pay PST on your materials, but currently you don't PST on the labour. That labour, that element of profit, would be subject to a tax which was previously not there. So that would be something the government would have to consider, enhancing the rebate provision to make sure that the cost of a home stayed at the same level, and I don't believe that perhaps has taken place in the Maritimes.

Mr Kwinter: Just out of curiosity, what is the conservative business association of Waterloo region?

Mr Lemont: What is it?

Mr Kwinter: Is it a political organization?

Mr Lemont: Yes, it is.

Mr Kwinter: That's all. I just was curious. I didn't know whether it was small-c conservative businessmen who had some concern or —

Interjection.

Mr Kwinter: Like me, yes.

I want to pursue the area of harmonization as well. There have been an overwhelming number of presenters to us, those who have commented on harmonization, who have advocated that the government adopt a harmonization policy, notwithstanding that there are concerns, and you've addressed some of the ways that those concerns can be addressed in the structure of the harmonization.

Can you tell me, and I'm not asking you — are you a member of the conservative business association? The reason I'm asking: Do you have an idea why the government doesn't want to do it?

Rose Mailloux: Why the government doesn't want to harmonize?

Ms Bassett: The cost.

Rose Mailloux: I believe it's simply a political hot potato that everybody wants to steer away from as much as possible.

Mr Kwinter: My point is that when you say — I hear someone saying "the cost" —

Ms Bassett: You know that, Monte.

Mr Kwinter: — but we have all of these groups who are going to be impacted either favourably or unfavourably by harmonization, and the major sectors in our economy, the automotive parts dealers, the automobile manufacturers, the exporters, Canadian Manufacturers' Association, the agricultural sector, the Retail Council of Canada, the chartered accountants institute, all of these people advocating harmonization. You would think that somewhere along the line there has to be some merit to it, or why are all these people advocating it? Do you have any response to that?

Rose Mailloux: It appears the people who are advocating it are obviously business manufacturers, exporters, the reason being that, as I mentioned earlier, there is a PST cost in their cost of production, cost of doing business. It impacts our exports negatively. Certainly the administrative burden is heavy, and this is a non-productive type of expense. You're administering government red tape. Certainly there are better resources —

Mr Kwinter: Are you saying the burden of administering the harmonization itself?

Rose Mailloux: No, the old. I'm sorry. The current system, which would be alleviated by a harmonized system.

Mr Lemont: I think the reason for suggesting harmonization is purely one of economics, the additional cost of businesses to account for, collect and keep track of two separate taxes. At the same time, on the side of the government, we have two governments, each administering its own sales tax program, each with separate audit departments. There's a duplication of effort there.

Mr Pouliot: Thank you for your presentation. Right after harmonizing the GST and the provincial sales tax, Ernie Eves called Jack Kevorkian, and Dr Kevorkian told Ernie, "No, no, no, you don't need my help. I can do it myself."

When I read your brief and then you blend in, you mesh in, the good wishes of the conservative, with the highest of respect, association of business people — it's not like government. You don't have several levels of government. This is a presentation from the Kitchener-Waterloo chamber of commerce.

You're about to get some of your wish, the business community and the municipalities. They will have far less government within a matter of a few months. They will be in charge. They will have an opportunity to really do what's best. For instance, they will take over policing in their community, they will pay for ambulance service, for seniors etc.

Has there been some fear or some anxiety expressed about local taxation on both industrial but mainly on the commercial levy? What is it going to do to Harry and Jane who are running the bakery in Kitchener? When they see all the moves and the anxiety, what's taking place, it's coming to the local level, there's no question about it. And it's not revenue-neutral, there's no question about that either, because they wouldn't be able to address the deficit etc and give the tax cut.

You can only find money in so many ways, so it's going to cost more at the municipal level. Is there not some anxiety? I would have liked to have seen this discussion portrayed in saying: "Look, we pay too much taxes, and with what is around the corner, maybe you'll be killing us with taxes. You're supposed to help us. You're our friends."

Mr Lemont: We are paying too much tax. I personally haven't seen any concern expressed about the increased taxation because of the shift. Hopefully the additional costs that are being transferred to the municipalities will be more than offset by the decrease in education assessment to the municipalities. Whether that's going to happen, I don't know, and I really don't think anyone knows at this point, but the objective has to be that the overall total has to be reduced.

Mr Pouliot: Thank you.

The Chair: Thank you very much, and we appreciate very much Kitchener-Waterloo coming in, particularly on short notice, I understand. It is very much appreciated.

There being no further business to bring before the committee at this time, we stand adjourned until next Thursday at 10 am. One day left.

The committee adjourned at 1803.

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CONTENTS

Thursday 27 February 1997

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Legislative Assembly of Ontario

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Première session, 36e législature

Official Report of Debates (Hansard)

Thursday 6 March 1997

Journal des débats (Hansard)

Jeudi 6 mars 1997

Standing committee on finance and economic affairs

Comité permanent des finances et des affaires économiques

Pre-budget consultations

Consultations prébudgétaires

Chair: Ted Chudleigh
Clerk: Franco Carrozza

Président : Ted Chudleigh
Greffier : Franco Carrozza

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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Thursday 6 March 1997

Jeudi 6 mars 1997

The committee met at 1003 in committee room 1.

PRE-BUDGET CONSULTATIONS

ONTARIO TRUCKING ASSOCIATION

The Chair (Mr Ted Chudleigh): I call the meeting to order and welcome the committee back into session. We will commence with the Ontario Trucking Association. Mr Bradley, Mr Burke, welcome. We have 30 minutes to spend together. If you would like to make a presentation, we will follow up with questions later.

Mr David Bradley: Thank you very much, Chairman, members of the committee. I'll really try hard this year to keep my comments brief.

The Chair: We do keep time with my watch. You will get 30 minutes, and 30 minutes on that clock will be about 37 minutes after.

Mr Bradley: Okay. First, by way of background, I think it's important for people to understand the role the trucking industry plays in the economy of Ontario and how dependent the economy is on the trucking industry. Trucking is the dominant mode of freight transportation. About 95% of the goods moved into, out of and within Ontario depends on trucking, either solely or as part of an intermodal movement where you require a truck at either end to get freight to the rail head.

In terms of GDP among all the transportation sectors, trucking contributes over $3 billion annually to the province's GDP. The reason trucking has this dominant mode, despite some of the things you might have heard in recent months, is because of the package of service and price that our industry is able to provide. Our industry, with its flexibility and its efficiency, is geared to serving high value added manufacturing, which in turn relies upon just-in-time inventory systems, and the retail sector, where they're now moving from just-in-time to something called "quick response," which leads to even smaller, shorter distance shipments. It's because of that flexibility and efficiency that the trucking industry's been able to dominate.

Putting that in some context for Ontario overall, trade is the engine of economic growth in the province. It would be nice to have a market of 350 million people. We don't, but we have access to one through trade. Ontario's merchandise exports now account for 39.4% of the province's GDP; 10 years ago, that number was slightly over 33%, so enormous growth over the last 10 years in a free trade environment. Ontario's merchandise exports, by value, were $124 billion in 1995 and that's more than 102% greater than the $60 billion or so that existed in 1985, so a 102% increase over 10 years.

Of course, our major trading partner continues to be the United States. That makes a lot of sense, given the market is just to the south, and the major markets in the northeast, central and southeast US are all within one day's truck drive of the major markets of Ontario. Merchandise trade with the US is 89% of all of Ontario's trade.

Most of that trade moves by truck. In fact, 75% of Ontario's exports by value to the United States and 83% of US imports by value into Ontario moved by truck. The Detroit-Windsor gateway is the largest gateway of trade anywhere on the entire planet.

When you look at our major trading partners, Michigan, Ohio, New York, Illinois and California, you'll see from the chart there that trucking again is the dominant mode in those states. About 60% to 65% of our trade with Michigan is shipped by truck both ways and much higher, 80% to 90%, in the others. Even California, an extremely long-distance market where you might think that rail intermodal would flourish, you'll see that trucking there still hauls about 50% of Ontario's trade with California.

Border crossings between Ontario and the United States have been growing exponentially since the downturn in 1990-91 and at the present time the Canadian trucking industry, basically Ontario carriers, has the lion's share of that market. You'll see it narrowed during the recessionary period when we had an artificially high Canadian dollar and our industry was in the initial throes of deregulation. Since that time though, Canadian carriers have become more efficient and more competitive and we've had a correction in the dollar and are now able to compete head to head in that marketplace.

All of this leads to employment and job creation in Ontario. Trucking is not a capital-intensive industry; it's a labour-intensive industry. You'll see that overall the industry employs about 200,000 people, but if you looked at people working in just the for-hire and private carrier sectors, about 83,000 jobs in the province of Ontario, which ranks it right up there with some of the other major industrial sectors.

1010

Trucking will continue to be the dominant mode of freight transport for the foreseeable future. The chart you're looking at there was a survey conducted in 1992. It showed that between 1992 and 1996 trucking would see some decline in the per cent of freight bill assigned to it, most of that coming because of rail intermodal, but really a very marginal decline. A study conducted this past fall by Transport Canada for period 1995-2010 shows that the trucking industry will grow at an average annual rate during that period of 2.3% compared to 0.8%

for rail and 1.1% for marine. Overall, during the period up to 2010 the market share of trucking will increase an additional 12%, and that will be at the expense of both rail and marine. Again, that is a reflection of the kind of economy we are developing here in this province.

However, that strong operational performance has not translated into significant profitability in the industry. It's a cut-throat, low-priced industry at the present time. Costs continue to go up. Taxes have continued to weigh heavily on the burden of the industry. The operating ratio, which is what we use to measure profitability — expenses over revenues less interest payments — it and income taxes, you'll see that in 1996, the most recent data we have, when the line's moving up, that is a deterioration in our financial performance. We've had the operating ratio hovering in the high 90s now for some time, which means very, very thin profit margins.

The result of that has been continued bankruptcy. In the period 1992-95, like all industries, we were doing quite well in reducing bankruptcies in our industry. In 1996 they started to climb up again and 1997 so far remains still somewhat cloudy.

Why I think the finance committee needs to be interested in this is because the cost of transportation as a percentage of delivered prices in Ontario is significant and you'll see that as a percentage of its revenue the trucking industry in Canada is more highly taxed than virtually any other industry out there at the present time. The reason for that is that the trucking industry doesn't get the same tax preferences as other industries. We are a labour-intensive industry, so payroll taxes hit our industry harder than some others. But most important is that the trucking industry pays tax on virtually all of its business input. This is not something that manufacturing and other producing sectors experience. We do, even though our industry is so tightly integrated into the manufacturing sector. The result of that high taxation is increased consumer prices and a decrease in the investment in plant and equipment in the province.

To look at the impact that transportation taxes have on industrial competitiveness, this shows the transportation costs as a percentage of the delivered price of goods of some of the major sectors in Ontario, everything from coal at 39% to manufactured goods at about 5%, but that could be in a broad range. It's very difficult to come up with the typical manufacturing company.

Also, when you look again at our trading partners in the United States, most US carriers are exempt from sales taxation where they are interstate or transporter carriers. This past January, Michigan introduced new legislation to exempt Michigan carriers from sales tax on the purchase of new tractors and trailers. In that way, they're able to turn their fleet over quicker for efficiency and for safety reasons.

In Quebec, and most recently now in the Atlantic provinces, they've moved to harmonize their sales taxes with the federal GST, which provides a credit on their business inputs. Western Canada's going in a different way, looking at something called a "recurring sales tax," which we hope Ontario will avoid, but now the trucking industry in Ontario has to deal with at least three or four different sales tax systems to simply meet our obligations in terms of tax.

Something that I think is important in the current context of attention surrounding the trucking industry and its safety performance is that when you look at the way business inputs in trucking are taxed, we pay sales tax on our tractors, trailers, new tires, vehicle maintenance, repair and labour, warranty repairs, and our automobile insurance premiums on all of our trucks, the case can be made that the more you invest in safety and maintenance, the more you spend on safety and maintenance in Ontario, the more tax you pay. I don't think that kind of regressive tax system was intended, but that is the result we've seen. We think one day Ontario will harmonize with the GST. It's just a matter of time. We believe that is the best way to end discrimination against service sector industries.

Also, we would like to see some new incentives introduced on the safety front. I can speak to this under the question period, but we would like to see the introduction of a workers' compensation experience rating type of system where those who perform poorly with respect to safety pay higher premiums, commercial registration fees, and those who do make the investment in safety and maintenance would get some sort of rebate.

Fuel costs are the second-largest component of truck operating costs, anywhere from 15% to 30%, depending on the type of operation. The diesel fuel tax rate in Ontario has gone up 44% in the last decade. We're at 14.3 cents per litre. The railways, by example, in Ontario pay only 4.5 cents a litre. Some of the things you've been hearing about tax discrimination against the rail sector I don't think really hold up. Overall this tax collects about $500 million a year from the trucking industry into the coffers of the province.

When you look across the rest of the country, Ontario no longer has the highest diesel fuel tax rate in the land. It did a couple of years ago, but it's at the middle of the pack right now. However, compared to where our real competition is coming from, Ontario's clearly the highest among our major US state trading partners in terms of its take on diesel fuel taxes.

At the same time, fuel taxes have no relationship with the cost of fuel or with profitability, and we have seen over the course of the last year significant increases in the rack price of diesel fuel. It's put really extreme pressure on carriers. We have had some moderation just in the last couple of weeks, but levels are still much higher than they were a year before. The moral of this story is that fuel taxes should no longer be viewed as sin taxes and the industry really can't afford any further increases in that regard.

We think though that enough money is being raised from those taxes to maintain the infrastructure. I realize, particularly against the backdrop of today's announcements with respect to hospitals and recent ones with respect to education, that it's difficult to bring the infrastructure argument into play. However, the government was elected to increase competitiveness and increase jobs, and there isn't an economist of any political stripe who wouldn't tell you that one of the best ways to do that, one of the ways you have to do that, is to invest in the competitiveness of your infrastructure.

At one point in time Ontario had a competitive advantage in this area. That no longer exists. The Provincial Auditor reported to you last year in terms of the state of the highways and how much it would cost now to fix them and how much more it will cost in the future if we don't start to get at that. In 1965 the provinces in Canada spent 20 cents of every dollar raised on the highway system. In 1993 that amount dropped to 3.5 cents. It's no wonder that the current state of the highways is one of disrepair.

When you look at Ontario in terms of its road expenditures in Canada per vehicle, it's pretty much at the lower end of things in terms of what some of the other provinces are spending to maintain their infrastructure, to maintain their competitiveness. This not only has an economic impact in terms of the longer-term competitiveness of our economy — trucks are not going to go away; they are going to be the major mode of moving Ontario's exports — but it's also a safety issue. You haven't heard the Ontario Trucking Association raising this in any sort of vehement fashion during the last several months and the problems with wheels off and what not, but it is abundantly clear that the state of the highways at the present time is putting increased wear and tear on vehicles and components. It's something that must be addressed also from a safety perspective.

1020

We have concerns with some of the new proposals arising out of the provincial government in terms of handing over the responsibility for roads and some provincial highways to the municipalities. We're concerned about the continuity of the system and the impact that will have on economic and safety issues. It's our view that any highway of provincial significance should continue to be maintained by the province or at least have the province setting specific standards for those highways, what standards they should be built to.

Those are my remarks. I would be pleased to take any questions you might have.

Mr Gerry Phillips (Scarborough-Agincourt): I'll just make a statement and then ask questions. I view your industry as absolutely essential to the future of Ontario. I don't think there's much doubt that our economy depends on our ability to trade with the US. The heart of Ontario is its auto parts and manufacturing, and you play a big role in that. An efficient trucking industry is, to me, absolutely crucial to our future. I was glad to see what appeared to me to be a substantial increase in Ontario's share of trucking vis-à-vis the US, because that was I know a major concern for many a few years ago.

I don't think we'll have time today to discuss all the implications of your report, but I can just assure you from our caucus view that we view your industry as a key both for our export business and also obviously for our internal, domestic business.

Just a couple of questions. One is on infrastructure. How does your industry feel about the use of toll roads to construct infrastructure?

Mr Bradley: In general we're not supportive of tolls. Our argument there is that there's more than enough money being collected from the road user now. In fact, the Better Roads Coalition of Ontario has drawn numbers from the public accounts which show about $1 billion a year — less is spent on the road infrastructure than what is collected from road users.

However, having said that, it was OTA that took the forefront in the early discussions regarding how we can accelerate the construction of Highway 407. At that time we said we needed to see that highway in our lifetime, that it was important to Ontario, and therefore we were prepared to consider tolls under certain conditions, some of those conditions being that there has to be an alternate route, that the funding will go to construction, that when the debt is retired, the tolls come off — those types of things.

In that case we were accepting of tolls, notwithstanding that we wanted to see what level they would be, and the market will eventually sort all that out. But to take an existing highway and start tolling it is not something we would be supportive of, because again the money is there; the problem is, as you well know, that moneys collected from taxes go into general revenues and then have to compete with other expenditures. What we need to do as road users and as people in government is to garner a broader understanding of the importance of infrastructure. It's not hospital beds, but it's important to people's livelihoods as well.

Mr Phillips: There is a problem right now with the perception of the trucking business. I think all the members here would probably agree that we get a lot of comments from the non-trucking public, worried about their safety. In that kind of environment we run the risk that to solve the safety problem we may make your industry slightly less competitive than it has been. Have you any advice for us in the safety area of what we should be doing?

Mr Bradley: Yes, and you're right, because trucks come from other jurisdictions into Ontario as well, and the extent that the costs of regulation were borne at a higher level by domestic carriers than outside, all you'd end up accomplishing there is moving the freight to US and carriers from other jurisdictions while making our industry less competitive.

I hope next week there will be some broader announcements on this, but we have felt that the regulatory system developed in Ontario has been flawed for some time. The things that OTA has been saying over the crisis of the last year or so are things we've been saying repeatedly for the past eight or nine years.

We need to have a regulatory system that clearly identifies what is meant by "safe," what is meant by "unsafe." There is no definition presently in the regulations or legislation. We need to then do a more efficient job of targeting those carriers, those drivers, that equipment that is unsafe, penalizing them heavily, if need be lifting their licences and getting them off the highway, out of the business.

At the same time, though, we have a hypercompetitive marketplace right now, and the market is not sending the proper signals. A safe carrier, a carrier that's making its investment in safety and maintenance, doesn't get a higher price from his customer. Right now the price is king. There are plenty of people who don't know the first thing about running a trucking business who will take any freight at any price.

What we would like to see, again, is the introduction of incentives for those safe operators to help the marketplace work, whether that's indicated through lower commercial vehicle registration fees for someone who's an exemplary operator, only granting permits for certain types of equipment to exemplary operators. In that way, the market can then get rid of this rogue element that we have in the industry. It's a small element of the industry as a percentage, but there are 80,000 licensed trucking companies in Ontario, so it does lead to what would seem to be a lot of equipment that needs improved maintenance.

The bottom line is that if you're not maintaining your vehicles properly, if you're not conducting preventive measures to make sure your vehicles are in fit mechanical condition, if they're not safe, number one, your maintenance costs are going to be higher than they need to be in a competitive marketplace like ours; you can't afford to have any component of cost out of whack with your competition. It's just like in your car. If you're not changing the oil regularly, one day your engine is going to blow up on you and that's going to cost you a heck of a lot more. You're going to run the risk of an accident. If you have an accident, you face skyrocketing insurance premiums, you face potential loss of your customer, and then whatever sanction the Ministry of Transportation or the OPP sees fit to lay on you.

I've heard the excuse, "Oh, nobody's got money to invest in safety and maintenance." That's a crock. What we don't have right now is a system that ensures that everybody is making that same investment. If we can get to that stage, then we'll have fair competition and we'll have safer highways.

Mr Tony Martin (Sault Ste Marie): I want to tie some of that into your comments about the state of our infrastructure, of the roads. How much of what we're seeing now, in your opinion, by way of the flying wheels, can be directly attributed, even indirectly attributed, to the condition of our roads?

Mr Bradley: It's very difficult to say. It is no doubt a factor, perhaps, in some of the instances. My view on the wheels and the view of my association is that if you're maintaining your wheels properly, if you're inspecting them properly, if you're installing them properly and retorquing them properly, you should minimize the risk of a wheel off. However, we have had brand-new, perfect-condition vehicles lose them as well, so I have no doubt.

Where I think it's much more evident is in suspensions and in air brakes out of adjustment, which are the largest out-of-service defect. Out-of-service defects have been equated with safety defects. It's just not so, and this is one of the fallacies that's been out there in the media and in the public eye.

When you look at those out-of-service numbers and you look at the wear and tear on the shocks, you see very clearly where the wear on components is having an impact on the mechanical fitness of vehicles. I've been as close to the wheels issue as I think anybody else, and while I believe that it is a factor, I can't tell you how big a factor, nor has OTA used that as an excuse for these things coming off.

1030

Mr Martin: With the trend in terms of bankruptcies and the increase, and it's not that different from some other sectors of our economy at the moment, what would you say is the major cause of the increase in bankruptcies that we're beginning to see?

Mr Bradley: It is continued depressed pricing, continued low rates, excessive discounts as people just try to generate cash flow to stay alive. Take that, combined with a continued choppy performance in the domestic economy, and when you've got decreasing prices, increasing costs and simply less freight to move so you're parking the trucks up against the fence, that's what causes the bankruptcies.

In any industry there are people who are incapable of managing their companies who go out of business, but we've really had a cash crunch in the industry over the last number of years. It gets a little better when the economy picks up, but it's very cyclical.

Mr Jim Brown (Scarborough West): Mr Phillips asked the first question I had. It was about safety. I'm wondering about all the fuel taxes that get collected by the feds and don't seem to find their way back to roads or the province. What are you doing? Are you doing anything in trying to help get some of that money back?

Mr Bradley: Yes, absolutely. I've been meeting with the Liberal caucus, meeting with the federal standing committee on transport, the federal standing committee on finance. It is true that the government of Canada takes about $2 billion a year out of the pockets of Ontario road users and puts virtually none of it back into the highway system here in Ontario.

There have been some moneys given to Atlantic Canada and the west as part of the elimination of the transportation subsidies in those regions, but the government of Canada is the only national industrialized government that does not have a national policy on highways. Therefore they do have a role to play.

I have supported Ontario, under the current government and under the previous government, in terms of ensuring that Ontario gets its fair share of that pie if and when it ever comes.

Mr Jim Brown: Is your membership mostly big guys or little guys?

Mr Bradley: It's mostly little guys, which is the bread and butter of the industry.

Mr Jim Brown: What percentage of the total industry would that be that you would have?

Mr Bradley: It depends how you look at it. If you looked at it in terms of numbers of companies, it would be a relatively small number. The ministry will tell you there are anywhere from 20,000 to 80,000 registered companies in the province. They don't know how many of those are really active, how many of them are one person, one shop, but if you look at it in terms of revenues generated, our members generate about $5 billion a year annually in sales, and that would represent anywhere from 50% to 60% of total revenues generated.

Mr Jim Brown: In those bankruptcy statistics which seem to show an increase, has there been a credit crunch from the banks?

Mr Bradley: Yes. There was in 1995 and the first part of 1996. Things have been a little easier recently, but that

has been an historic problem. Trucking is either the flavour of the month — one day they're falling all over themselves to lend money to us; the next day the capacity is gone.

Mr Jim Brown: The chartered banks, you mean.

Mr E.J. Douglas Rollins (Quinte): Thank you very much for your presentation. I have had a little experience in trucking as I started out my career in life as basically what you call a truck driver. The last few years we've seen our roads deteriorate quite substantially. The last government saw fit to continually remove dollars being spent in the budget on the highways. We increased it quite a bit this year, particularly on repairs and new asphalt. Did you see a remarkable difference — starting to see it?

Mr Bradley: We did see improvements last year. There was a lot of pavement being put down. We're not sure how long that pavement will stand up, but certainly we noticed the $18 million that was in the last budget. However, at the same time, you know there wasn't any spending in the first year, the first budget that your government introduced. I think that all governments, and this goes back over the last 20, 30 years, are to blame for the neglect of the highway system. We're hopeful that we would see that same kind of commitment to the infrastructure in the current budget, and even that is going to take a bigger job. It's not just the highways, but the bridge infrastructure in particular in the province is in dire need of upgrading. Many of these bridges were built long before the Second World War. It's like an old shoe. If you use it enough, eventually it wears out.

The Chair: Thank you very much. We appreciate the Ontario Trucking Association presenting to us today. We appreciate your views.

COUNCIL OF ONTARIO UNIVERSITIES

The Chair: We now welcome the Council of Ontario Universities, Professor Patterson, Professor Prichard and Dr Davenport. Welcome to the standing committee on finance and economic affairs. We have 30 minutes to spend together, if you'd like to make a presentation, and we'll fill any remaining time with questions.

Ms Bonnie Patterson: Thank you so much. It is a pleasure to be here and have this opportunity. I'm Bonnie Patterson, the president of the Council of Ontario Universities. With me is Professor Robert Prichard from the University of Toronto, who serves as the council's vice-chair. I offer the apologies of Dr Paul Davenport, who chairs our government-community relations committee and is the president of the University of Western Ontario. He is on the ground, in a plane in Ottawa, iced in today.

As you may be aware, last year the government appointed a five-member panel to conduct a major review of the post-secondary education system in Ontario. The Advisory Panel on Future Directions for Postsecondary Education produced a report entitled Excellence, Accessibility, Responsibility, which contained 18 key recommendations for higher education in Ontario.

Why would we begin by referencing a government-appointed panel? The Council of Ontario Universities endorses the directions set out in that report and we urge our government to make it the framework for future policy on universities and to work with Council of Ontario Universities towards rapid implementation of the directions identified in that report.

Priority in implementation should be given to the critically important strategic directions that will make Ontario's publicly funded universities able and positioned to make their full contribution to the social, cultural and economic development of this province, to research and innovation and to technology transfer. Those four pillars, if you will, of that report are as follows:

(1) Benchmarking the government grants for teaching and research to the average of the other nine provinces and to grants at comparable publicly funded universities in the United States;

(2) Ensuring that Ontario universities have the resources to be competitive in research with comparable publicly funded universities in North America;

(3) Continuing deregulation so that boards of governors of our institutions are free to set tuition fees at levels that they regard as appropriate, program by program, but on the condition that if an institution chooses to set fees above a government-specified upper limit, it must set aside an appropriate amount of incremental revenue as financial assistance to its students, based on needs;

(4) Renewing the student assistance program in Ontario is critical to address student debt loads, by having the rate of repayment on government loans reflect in part a student's income after graduation and by instituting what we believe to be vitally important grants for students with special needs.

It's within this context of these strategic directions that we encourage you to think about the universities in our province.

Basically the state of our Ontario universities is telling. Last year when we appeared before this committee, it was just several months after the announcement of a 15% reduction in the operating grants of Ontario's universities. This $280-million reduction was according to the policy document the Common Sense Revolution, and the full cut was indeed levelled in a single year at the universities.

1040

We are encouraged by the fact that the government is holding to its promise from the CSR in not going beyond 15%. As you are aware, the Minister of Education and Training announced last December that operating grants to education and post-secondary would be indeed frozen for 1997-98 at the previous year's levels.

This decision by government to freeze grants cannot be viewed, however, as a resolution to the problem, but rather it's a necessary first step to turn around our dismal financial climate. May I remind the members of this committee that Ontario universities are funded at 10 out of 10 among provinces in the funding scale. Our universities are the worst per capita funded in the country.

This level of funding must be redressed, and we believe there are some incredible opportunities before us now. We do boast one of the highest participation rates in the world — in fact, in Ontario over 33% — and we don't want this to deteriorate any further for those participating.

We are encouraged by the remarks made by the Minister of Finance before this committee on February 6,

when he stated, "We may not in fact need to find $3 billion in savings to achieve our target of balancing the budget by fiscal year 2000-01." The Minister of Finance went on to state that this budget-making "isn't strictly an exercise in meeting some number; it is an exercise in trying to provide the most appropriate service to the people of Ontario, especially in the fields of health care and education, in the most efficient and cost-effective manner possible."

The Minister of Finance's willingness to reinvest and preserve the quality of key sectors in this province is timely and, more important, comes at a critical juncture in the history of Ontario universities.

To highlight some of our challenges, in 15 of 17 Ontario universities we find ourselves incurring operating deficits, indeed mortgaging our future in order to address the physical deterioration of our infrastructure, the loss of personnel in order to meet cuts in funding, and indeed we are suffering from an erosion of our research capability. But again, let me stress, there are opportunities.

Related to operating deficits, all told, our universities have had to adjust to a 25% reduction in operating grants over the last five years. We are attempting to adjust to this funding reduction as quickly as possible, and indeed there are plans in place to move forward over the next three to five years to manage this responsibly. But let me be clear: Universities are mortgaging their future in order to meet the new government imperatives of today.

I would like to highlight a couple of other areas, one related to the loss of personnel. Excellence and innovation in university research, in teaching and in services we provide are the direct outcomes of a high-quality faculty and staff. In recent years, funding reductions have necessitated the introduction of early exit programs of our faculty and staff as a cost-saving measure. The figures in our report represent losses in personnel over a five-year period without the consideration of 1996-97. In that year alone you will see an additional 1,000-plus highly qualified individuals leaving our institutions.

The long-term impact of downsizing for Ontario universities is even more troublesome. Many of these individuals leaving are among the most experienced and most competitive in their respective disciplines in seeking federal funding.

Concurrently, the universities have less and less capacity to attract talented faculty, young faculty, to replace those who have departed in the last several years. This loss of our prominent academics and our inability to attract the best has a long-term impact on our institutions.

The erosion of research capability and competitiveness is something we've written to all of you about. We are indeed major contributors to our province's cultural, social and economic development.

The report entitled Impact of Provincial Policies on University Research, which was a comparative study of selected Canadian provinces, highlighted this fact, the fact that Ontario universities' research capacity has deteriorated because of the lack of an explicit and coordinated government policy on research and adequate financial support for research. Moreover, government expenditure reductions starting back in the early 1990s, 1992-93, have accelerated this deterioration. It has hindered our competitiveness in Ontario to seek federal research grants and other forms of sponsored research.

The report demonstrates that British Columbia, Alberta and Quebec have each expanded their share of both federal research funding and PhDs granted while Ontario's share in these two measures has declined.

One final element, the physical deterioration of university infrastructure: Our universities have had little capacity to deal with the cost of deferred maintenance of their physical infrastructure, but again an opportunity is ahead of us. The largest proportion of buildings in our universities were constructed between 1960 and 1970, the early 1970s, making the average building now close to 30 years old. The aging infrastructure requires not only constant upkeep but regeneration to reflect an evolving, information-technology-based environment. An estimated cost of deferred maintenance in 1993 was $522 million. That cost rises by $60 million to $80 million per year, and yet we have $15 million in deferred maintenance budgeted each year by this government.

Again let me emphasize that there are opportunities before you as a committee that, if we chose to act in certain ways, could arrest many of these situations. I'll ask Professor Prichard to take on the next part of our presentation around those opportunities to move forward within the strategic framework.

Mr Robert Prichard: Chairman, I'm grateful for the opportunity to speak. You have our text. Let me speak to it and try to focus on our very specific advice as to what we hope your committee might recommend to your colleagues in the Legislature and in the government.

Listening to President Patterson, you no doubt would hear a tone of discouragement, because we are in really very difficult shape at present. We need to be frank with you. The deterioration in our situation is serious, and it's having a serious impact at present on the quality of student experience at each of our universities and colleges in Ontario today, and we really feel very strongly we need to change the situation.

Despite that, I want to have my presentation be one of opportunity. We believe there is a terrific opportunity at present before Ontario to rebuild and restore these terrific public institutions of our colleges and universities in Ontario, that it's doable, that there is a roadmap how to do it, that it's affordable and that it needs to be done as a matter of urgency.

The graduates of our institutions, the young people of Ontario that you represent, don't just compete with other people from Ontario; they compete, once they graduate, with people from across Canada, young people across Canada, and around the world. The simple goal of our universities and colleges is to give them educations that equip them to compete and compete effectively in a global competition with young people graduating around the world.

What needs to be done? I want to make just six points to you.

(1) The government commissioned an advisory panel on future directions for higher education in Ontario, the Smith panel. It was a very strong panel. They consulted across the province, they did an excellent job. Our first advice is: Implement the Smith report; recommend

implementation of the Smith report. No one of us would have written it quite the way it was written. Each university would have taken a slightly different view, each group would have taken a slightly different view, but on balance the Smith report represents a blueprint for action which has been unanimously endorsed by the members of the Council of Ontario Universities and which in our view is the wisest course available for the province of Ontario. First, then, implement the Smith report.

(2) The critical first recommendation of the Smith report is to set a goal for Ontario to restore public funding of our universities to the national average. It's not an ambitious goal of leading the country; a goal simply of stating that Ontario should fund its universities at the national average and work to moving us from 10th out of 10 in Canada to the national average. Our institutions are public institutions. These are public investments. These are public rights our students have to a fine public education, and we cannot deliver it without an investment that is equal to the national average.

1050

(3) Research funding: When Minister Snobelen announced the government's plans for no further cuts for the coming year in our institutions to stabilize funding, he also said we need to spend more on research. That was his statement, and he was right. The minister was right and the government is right to know we need to spend more. There are two specific opportunities facing us at present as a province to which we must respond effectively and quickly.

As you know, the government of Canada has recently announced the Canada Foundation for Innovation, a marvellous opportunity for Ontario to participate more effectively in attracting federal funds to Ontario. Ontario's share, as Dr Patterson has said, has been falling badly. This is a golden opportunity for Ontario to reverse the flow and to get a larger share of federal funds coming into the province as we go forward in rebuilding the research infrastructure of Ontario.

Similarly, as Dr Patterson said, we need to be effective participants in the Canada infrastructure works program as well to begin to get at the deferred maintenance problems on our campuses.

Those two opportunities together, the Foundation for Innovation and the infrastructure works program, if Ontario was an effective participant in those programs, it will go a long way to begin restoring our national competitiveness.

(4) The Smith report recommends that responsibility for setting tuition fees be moved to the governing body of each institution. We urge you to recommend to the government that it act on that recommendation. This is a necessary step to get the kind of innovation, competition and flexibility we need as each university stakes out the ground where it can best serve Ontario. This is again a recommendation of the Smith report, it's part and parcel of the Smith report, and we urge you to urge the government to act on that recommendation.

(5) Student aid: Absolutely critical to the future of the province and of the young people of the province is that we have outstanding student financial aid arrangements for our students. The Common Sense Revolution called for moving to a stronger student aid program based on some income sensitivity in the repayment schedules, providing an option for income-sensitive repayment. We again strongly endorse that recommendation. It is the recommendation of the Smith report. It's been the recommendation of the Council of Ontario Universities for five years. We now think there's an opportunity to act.

The federal budget two weeks ago indicated that the federal government wishes to enter discussions and is prepared to enter negotiations with provinces which wish to pursue this option. A number of us met yesterday in Ottawa with the Minister of Finance to pursue this further, and he again confirmed the government's willingness to work with Ontario to work on an option within the Canada student loans program to respond to Ontario's needs in this area and Ontario's expressed desire in this area.

We urge you to keep student aid as an absolute top priority and to work effectively with the federal government with this new opportunity.

Finally, the sixth recommendation we make is that you examine the success of the recent matching program over the past year, the Ontario student opportunity trust fund, which was an opportunity under which to the extent funds were given, donated to a university or college, the government matched it for purposes of student aid.

The response of benefactors across Ontario has been magnificent. The government put aside \$100 million in expectation that we could raise \$100 million across the province. We're now optimistic that by the last day of March, which is the last day of the program, we will have raised \$100 million for student aid and for bursaries across our universities and colleges. That will be a new \$200-million endowment to support our students in perpetuity.

The program has worked beautifully. It has energized each institution. It has energized our connection with our alumni and friends. We believe it's a model for the future and that you should recommend further efforts to attract more funds from the private sector and from our graduates to colleges and universities should be adopted in subsequent years building on the success of the last year.

Those, then, are our six recommendations: Implement the Smith report; move up provincial funding to the national average; strengthen research funding in partnership and in leverage with the federal government; assign the responsibility for setting tuition fees to the institutions; strengthen student aid, again in partnership with the opportunity of the government of Canada; and continue to build on the matching-fund experience of the past year which has been such a splendid success.

With those six steps, we believe Ontario will be able to get back in business, be able to get back into a competitive position, competitive with the other provinces of Canada, and begin to provide the competitive educational experience for each of our students that the young people of Ontario both need and deserve.

Chairman, we're very grateful for the opportunity to be here, and the two of us would be delighted to entertain any questions members might have.

The Chair: Thank you very much. If we could start our questions with Mr Martin, we have about two minutes per caucus, sir.

Mr Martin: Thank you very much for coming today. You certainly paint a very challenging picture, to put a positive spin on it. It's good that you present some ideas as to ways that we might improve the situation. I just wanted to focus in my brief time on the question of this income-related repayment scheme for tuitions.

I've been looking at this for about five and a half or six years now, because I was with the ministry for a while. When we were looking at it, the students were very concerned about it opening the door to spiralling tuition fees that eventually some students, for a variety of reasons, would not be able to or not want to commit themselves to, even though they could at the end of the day have some relief by way of the income relatedness of the payment scheme to pay back. It seems to me that all of their fears now are coming true.

In your request here, you're asking for an income-related repayment scheme, but you're also asking for the right to just charge tuition fees as you see fit, which is the picture those students painted that I tried to allay when I was dealing with them. Could you talk to me a bit about that? I think you need to get students on side with you on some of this stuff, and in that instance they're not, because of that very real concern.

Mr Prichard: That's an excellent question. Let me make three points. First, our position on student aid, of the need to strengthen student aid, is independent of whatever level of tuition is charged and whoever sets tuition. That is, the university strongly recommends strengthening student aid regardless, that we should invest in our students, that we should help our students in the best way possible and the fairest way possible. Whatever the level of tuition, if tuition were frozen for the next 10 years, it is our judgement that an option to have the obligation to repay your student loan be income-sensitive rather than a fixed option is a fairer, better option to make available. It stands on its own as simply a more socially just way to assign the burden of repaying student aid. But we recommend, to make the second point, it only be an option. We're not saying everybody should have to participate. If people wish to have a regular loan the way we have them now, our position to the government of Canada and our position to you is that option should stay available, that we should be adding an option for those who wish to pursue it.

On this, you may have noticed in the last couple of months in the lead-up to the federal budget there was a coalition formed of many groups, including the student groups in Ottawa, arguing for a package of improvements in student aid. The word "income-contingent" does not appear in that package, but "income-sensitive" does appear in that package and can be part and parcel of building the very coalition of which you speak, which is designed to strengthen our investments in students.

Last point: On tuition fees, when we recommend that the responsibility be moved to the institutions, you should not immediately assume that means that at all institutions tuition will simply go up. The advantage of putting it at the institutional level is you have a competitive situation where competitive forces in many cases will lead to very stable tuition fee rates, where you'll see tuition go down in some cases and in some programs. When tuition was deregulated last year for certain groups of students, tuition went down in some institutions, including my own.

Tuition deregulation does not mean skyrocketing tuition. Tuition being set at the institutional level means crafting tuition to the needs and the programs of each institution. It's a mistake, I believe, to simply correlate the two. In a number of jurisdictions around North America, and some in Canada, tuition fees are deregulated and are set by the institutional level, and it has not led to skyrocketing tuition in those provinces.

Mr Tim Hudak (Niagara South): Thank you both for your presentations. I'm very pleased as a government member to hear your support for the income-contingent loan repayment program. I don't know if Mr Martin uses "scheme" in a pejorative sense or just in a descriptive sense, but we here think it makes a tremendous deal of sense, as you said, for those low-income graduates to repay the loans at a lower rate and the higher-income graduates can contribute to pay them back more quickly. In fact, I think the minister's work in pushing this and in following through on our commitment in the Common Sense Revolution is bearing some fruit. I hope we can get it in for September of this year, but we appreciate your support and we'll keep pushing for it with the feds.

1100

My question relates to your view that Ontario should get to the median in terms of per capita funding at the post-secondary level for students. A quick way of doing that — you mentioned in your following paragraph that we have a very high participation rate. One way would be to curtail the participation rate and raise per capita funding. But your approach is to ask for more money into the sector, which means less money for other government programs or going back to taxpayers to ask them to contribute more from their incomes.

Of course there are very difficult choices for the government if we were to follow through on your recommendations. What is the quid pro quo? What do we get in return in terms of accountability? What is the sector doing to make sure these dollars are spent most effectively? When students and taxpayers make a significant financial investment in post-secondary education, what reading do they have in terms of what they can expect at the end, whether they're choosing Western or U of T? Finally, what are the universities and colleges doing in terms of accountability and working together to make sure they're not all things to all people but perhaps working to areas of specialty in institutions and cooperating with the college sector?

Ms Patterson: Let me begin by making a couple of comments. You've got three or four parts to your question. Let me try to answer a couple of them.

Mr Hudak: He only gave me two minutes.

The Chair: I notice you used it all.

Ms Patterson: On the situation related to students, it's very easy to overestimate the degree of consensus around particular issues. What we believe is that in going forward with several elements of student aid reform at the same time, we have the best chance of crossing broad student groups and gaining support. That is one of the reasons we've continued our support of income-based

remission, an ICR program of some type, but at the same time a more harmonized plan with the federal program at the Ontario level.

If one looks at moving towards the national average, certainly one of the criticisms we have received from some of our leading industrial partners and members of our boards is that this is a very modest objective for a province like Ontario. The push from them has been, "National average is fine, but ought we not to be targeting ourselves to be the strongest and the best, given the position of Ontario in this country?" Again we're thinking of what's practically implementable, if you will, in the short term.

You asked about what we give in the long term. If you look at an ever-increasing knowledge-based economy, if you look at where new jobs are being created, where jobs are being lost, it's very clear that the higher the educational perspective and training background from colleges and universities, the more opportunity there is to be employed, the less opportunity to be unemployed or the greater speed at being re-employed if indeed change occurs in your workforce. The robustness of the jobs people are taking on and indeed the very strong entrepreneurial evidence of jobs where individuals are pursuing initiatives quite independent of formal organizational structures — the preparation that higher education gives you to be successful at that is directly correlated.

I think success in jobs, robustness of jobs, success in employment, success in job creation, success in terms of earning power are very much aligned with higher education and greater participation rates, which is why we have not said, "Decrease participation." We believe the opportunity ought to be there, and that's why student assistance becomes the number one priority for us as we try to ensure that those qualified and able would be able to attend.

On the accountability front, there are several new initiatives, some of which we have mentioned within our report, and we'll be glad to give you further detail on those. There certainly is a number of accountability frameworks that we have put out fairly recently that build on past success.

Mr Prichard: Chairman, could I add literally one sentence? The Smith commission addressed and answered your question by saying, in simplest terms, that the best way to get accountability, the best way to get efficiency, the best way to get specialization, the best way to reduce overlap is to have less regulation, more competition, and more financial empowerment of our students to make that marketplace work.

The Chair: I would suggest that's a very long sentence, probably an entire paragraph. You might lose marks on it, but we'll accept it today.

Mr Prichard: There was no period, though.

Mr Phillips: To correct one thing in your document, and I was at this meeting at your institution, you indicated that the operating grants to elementary and secondary were frozen at the same level. They actually were cut by $300 million that day. You may not have been aware of that, but that's just to correct the brief.

My concern is that I think we are letting our young people down right now. I don't blame this government, but the unemployment rate is extremely high. The thrust of your document, in my opinion, is to let the marketplace determine tuition fees. I believe this will happen: I think tuition fees will go up dramatically and will go up dramatically in the "preferred faculties," where you think you can get a job. I believe, for an awful lot of our young people, as those fees go up they will lose any hope of getting into those faculties. In my opinion, we are going to further divide Ontario.

I understand that you are scrambling for finances anywhere. I find it a bit strange that our young people have to contribute in their tuition fees to subsidize other young people in need. It may be that that's acceptable, but I do worry a lot about it; I don't know whether you worry about it. As you deregulate this, a lot of the young people whom I know will simply say: "My family and I can't afford that. You can talk about your loan repayment stuff, but I'm not sure I'll ever get a job. My family doesn't have the money." This may fly in Rosedale but it doesn't fly on Main Street, in my opinion. Maybe you can give me some comfort today, but I will tell you that this is very disquieting for me.

Mr Prichard: Mr Phillips, I know you feel this way; we've talked about it. We have common ground on the first proposition, which is that we're letting down the young people of Ontario at present. I spend every waking minute of my life motivated by the fact that I believe the young people of Ontario at present are being shortchanged by the post-secondary system. On that we have a common view. The current situation is that we are not able to keep pace with competitive standards of quality of education for our students, even though we know the most important thing we can do for young persons is give them access to a competitive education. We know that, so the question is, what to do about it.

Our first recommendation, of the points I made, is to invest more public money in our institutions. That is first and foremost. It's recommendation number one of the Smith panel. It's the first recommendation, beyond saying implement Smith, that I put my finger on. We must raise public funding to the national average. That hasn't happened for the last 15 years in this province. It needs to happen. First and foremost — I believe I'm with you — increase public funding to the national average.

In addition, however, we genuinely believe that setting tuition at the institutional level rather than provincially will serve our students better, that it will lead to more differentiation, more specialization, more accountability, more efficiency in our institutions, and that the issue of access is student aid. That is the real issue. Our full package on student aid is not just more loans; it's grants for our students, it's targeted grants to those groups least well-represented in our institutions. We want a full engagement with the government on strengthening student aid to be sensitive to the very points you say. But Ontario must continue to provide tremendously accessible higher education, but it most provide high-quality education.

1110

We continue to have very high participation rates, but we are having the most privileged in our community bailing out of out of our institutions. The most privileged in our community are leaving Ontario and are leaving

Canada for post-secondary education. They're walking out of Ontario for their post-secondary education. Why? Because they no longer believe Ontario is providing internationally competitive levels of quality.

That's the betrayal, I think, of the young people, and that's why I come back to saying that the number one recommendation is increased public funding of our institutions to the national average. With that foundation in place, let's build on it. I hope your party would strongly support bringing our funding up to the national average as the single best investment we can make in the future of young people in Ontario.

The Chair: Thank you very much. We appreciate the Council of Ontario Universities and their presentation today before us. Thank you very much for taking the time. I hope Dr Davenport was able to get off the plane, if he was only coming for this meeting.

Ms Patterson: We hope so as well. He's investing an enormous amount of time in the student world.

The Chair: We do appreciate it. Thank you very much.

CANADIAN UNION OF PUBLIC EMPLOYEES

The Chair: The next presentation will be from the Canadian Union of Public Employees, Mr Ryan and Mr Sanger. Welcome to the standing committee on finance and economic affairs. We have 30 minutes to spend together. If you would like to make a presentation, we can fill in your remaining time with questions.

Mr Sid Ryan: Thank you for the invitation to appear before your committee. I should say up front that this is not Mr Sanger. This is Mr Woodward beside me, who is our legislative assistant. Mr Sanger is sitting on an airplane in Ottawa right now trying to get into Toronto. We don't have our economist with us, so bear with me.

I'd like say good morning to the committee members. As is customary, we'd like to thank you for the opportunity to appear before your committee to present the views of the Canadian Union of Public Employees.

I'd like to note that many of my colleagues in the labour movement of this province have chosen not to appear before this committee. I fully support their decision and agree with the view that real consultation with this government is not possible. The present government of Ontario is less inclined to consult and less interested in the real consequences of its actions than any other government in living memory.

That said, I have chosen to appear before this committee because the 175,000 CUPE members whom I represent are directly affected by the actions of this government. On just about every front of this government's disastrous agenda it is CUPE members' jobs which are on the line.

Think of what the Harris government has started over the past couple of years: closing hospitals, axing child care, taking over education, privatizing Hydro, first gutting then Americanizing welfare and social services, and most recently, downloading massive costs on to municipalities. All of these actions are a direct threat to our members' jobs as well as the services they provide.

In fact, on some occasions the Premier of this province has specifically singled out CUPE members as targets for layoffs. So much for the parliamentary custom that an elected government governs on behalf of all its citizens. Given the scale of this attack, I feel I have a democratic responsibility to appear before this committee. The past year has demonstrated how fragile democracy can be, even in this, the richest province in one of the wealthiest countries in the world. I think it is my responsibility to do what I can to ensure that the institutions of this Legislature continue to function, no matter how hostile and authoritarian the current government is.

I will begin with a few comments on the Harris government's agenda and its impact on the broader public sector. Then I will focus on the takeover of education and downloading of services and costs to municipalities, before offering some recommendations for the 1997-98 Ontario budget.

This past year we've started to see what the Common Sense Revolution really means for Ontarians. In its first year, the Harris government stuck to beating up on the poor and issuing simplistic pronouncements for the rest of us. This past year, we've seen them try to put their slogans into reality. It has been ugly. The Common Sense Revolution has not been straightforward, it has not been simple and it does not make sense.

Let's look at some of these slogans and at what happens when you try to make them a realty. With his tax cut promise, Mike Harris promised Ontario voters to put "more dollars in your pocket." What has happened? The government has cut taxes. It may even bring in the second cut early. When Ontarians eventually see the difference in their paycheques, we will see that the people who benefit the most, the wealthy, are the ones who need it least. The tax cuts may increase sales at the Jaguar dealerships, but they will do nothing to help working families make their mortgage payments. It won't help young parents find affordable child care so they can go out to work.

Equally important, there has been no miraculous takeoff in employment. Finance Minister Eves recently reported that employment increased by 80,000 jobs in 1996. Ten thousand public sector jobs were eliminated, and these were offset by 90,000 new private sector jobs, for a net gain of 80,000 jobs in Ontario. This is an increase from the dismal performance of recent years. However, the increase in growth and employment is due almost entirely to lower interest rates, which are a federal responsibility. The improved economic performance has occurred in spite of, not because of, the Harris government policies.

While 80,000 new jobs may look good compared to the past couple of years, it is poor compared to the previous periods of economic growth. More than double that number of jobs were being created in the mid-1980s. Each year from 1984 to 1988, more than 160,000 jobs were being added to the economy, not for one year but for five years in a row. That kind of job growth was achieved without a tax cut.

The extent of joblessness in Ontario is hidden by a dramatic fall in the number of working Ontarians who are no longer either employed or looking for work. As figure

1 shows, if labour force participation had not dropped during the 1990s, our unemployment rate would be 14.7% instead of the officially recorded 9.1%.

The Common Sense Revolution promised the tax cut would create 725,000 new jobs over five years. To meet that promise would require more than 165,000 new jobs annually in each of the next three and a half years. Keep in mind that the number of public sector jobs eliminated in the coming years will dwarf the 10,000 cut in 1996 if the Harris agenda for taking over education and downloading services to municipalities is not stopped. Private sector job creation would have to be truly phenomenal in order to offset these public sector job losses and bring overall employment to the levels promised by the government. Private sector forecasts predict that actual job creation will be far short of these targets.

The tax cut will not deliver the miraculous growth promised by the Common Sense Revolution. As well as bad economic policy, it is disastrous fiscal policy. Having promised to both cut taxes and balance the budget, the government is now cutting spending with an irresponsible haste and lack of concern for the consequences.

This brings me to the second Common Sense slogan I want to mention. In its campaign document, the government promised to cut government spending by "cutting out the fat and waste" without touching priority areas such as health and classroom education. What has happened a year and a half later? Let's compare reality with the rhetoric.

Communities across Ontario are losing their hospitals. Just last week, David MacKinnon of the Ontario Hospital Association, our employers, told this committee that the pace of health care cuts is hurting the quality of care in this province. The same week, an elderly patient was left in a hospital corridor overnight. Nurses were short-staffed and did not check up on him regularly. This man's family found him alone and dead in his bed the next morning. Of course yesterday we found out about a child who is unable to receive cancer treatment therapy and is also in serious condition as a result of this government's cuts to nursing care and front-line workers in the health care system.

This morning we're hearing of hospital closures all across Toronto. Last week we heard about them in Ottawa. Rural communities are in an uproar. I used to live in the Kincardine area for many years. Kincardine has a population of 4,000 people. They had 7,000 out to a demonstration. I think that tells you what's happening in rural Ontario in response to this government's policies of cutting and closing hospitals. We have gone far past the point of cutting "fat and waste" when our health care system is so overburdened that medical staff cannot look after an elderly patient with dignity.

Even before the provincial takeover of education, funding cuts are forcing boards to cut programs. Junior kindergarten is disappearing. The Royal Commission on Learning said the early years are the most important. Instead of expanding the program, it is on the chopping block in many boards. Many other programs — French immersion, speech therapy — are also being eliminated. I don't consider these to be fat and waste.

Add to these the loss of non-profit child care spaces. Cuts to wage subsidies and provincial grants have eliminated thousands of spaces in non-profits. Regulations have been weakened, further reducing the quality of care available to parents.

Most recently, the Harris government hired a large American operator, Andersen Consulting, to show it how to take yet more money out of the welfare system. Their fee will be based on the savings they generate. Clearly, the financial incentive is to keep people off welfare by any means, instead of providing people with the means to become independent.

1120

As the government is only just discovering, workfare costs money and requires having the jobs available. If your real agenda is to cut costs by any means necessary, you bring in the hired guns. Andersen's fee for doing a similar job in New Brunswick amounted to 20% of the amount cut from the system. Based on this record, we estimate that the provincial government plans to take another \$800 million out of welfare in exchange for Andersen's \$160 million fee.

Welfare and social service workers, as well as social assistance recipients, will bear the brunt of these cuts. When Andersen was finished reviewing the social security system in New Zealand, 40% of the staff had lost their jobs.

Cutting fat and waste sounded good on the campaign trail. The reality is that more and more Ontarians are living in desperate circumstances, and the provincial government's reforms have more to do with delivering windfall profits to private operators than with making government more efficient.

The last Common Sense slogan I want to touch on is the promise to "remove barriers to growth" by slashing regulations. The reality has been sweeping changes to the Labour Relations Act, favouring employers more than ever. Most relevant to CUPE members, we know the government has considered removing successor rights in areas it wants to privatize. These include school board employees and municipal workers. Removing successor rights would allow private operators to replace public sector jobs with low-wage labour. This is not just bad for CUPE members; it is bad for services and bad for the economy.

Environmental regulations have also been slashed in an irresponsible move which will cause irreparable damage. Even where environmental regulations have not been decimated, we no longer have the staff necessary to enforce them.

What has been the payoff of these changes? As previously mentioned, economic growth has not taken off. What increase there has been is due to lower interest rates, not provincial deregulation, service cuts and tax cuts. Moreover, the present government has replaced legislative standards and regulations with increasingly concentrated power in the hands of the ministers. This direction started with the omnibus bill last year, which allows the minister to override labour legislation and collective agreement provisions.

More recent legislation, for instance Bill 103, the City of Toronto Act, and Bill 104, the Fewer School Boards Act, put unprecedented powers in the hands of unelected trustees and commissions who are accountable only to the

government. This autocratic style of government is truly distressing, especially considering that the Ontario Conservatives came to power promising more direct democracy.

One thing the Common Sense Revolution forgot to mention was the Harris government's plan to take over education and download massive costs on to municipalities. The mega-dump has completely overturned the postwar relationship between provincial and local governments, yet there was not a peep about it in the Common Sense Revolution. As one journalist put it, "This government seems determined to keep promises it didn't make."

Like the rest of this government's agenda, the mega-dump started out as a simplistic pronouncement. The provincial government was going to sort out who does what. By overhauling the entire system of local government, it would reduce duplication and do more with less. So much for the promises. The result is shaping up to be an outright mess, and there is no guarantee that Ontarians will save any money. Responsibilities of different levels of government will be more entangled than before. The only thing that seems clear is that the provincial government is desperate to force costs on to municipalities so it can meet its promised tax cut.

There is no rationale whatsoever for increasing the share of these services paid for by property taxes. The only reason for transferring costs for welfare, social services, child care, long-term care, and social housing on to municipalities is to reduce provincial government spending. If this goes through, municipalities will have to either raise property taxes or make very difficult decisions about cutting important services that have already been cut to the bone.

The mega-dump is wrong any way you look at it. It is wrong for transferring more costs on to municipalities than the amount the province takes over in education. The government initially claimed the amounts would even out. Then we learned that some additional costs for municipalities were left out of that calculation, for instance, $666 million in cancelled municipal grants. Other oversights included $100 million for water treatment plants, $75 million for highway maintenance and $70 million for repairing social housing. It adds up to almost $866 million in additional costs to property taxpayers. Different estimates put the full impact on municipalities at far over $1 billion.

Metro Toronto estimates its costs will be — and there's a typo in here. We had down $379 million, but in fact Metro is now saying it is $531 million a year. In Hamilton-Wentworth the increase will be $121 million a year. In Ottawa-Carleton it will be an additional $120 million to $160 million a year. Local costs in Sudbury will increase by $105 million per year. In London they will increase by $57 million.You cannot tell Ontarians that these additional costs have nothing to do with the provincial tax cut. The mega-dump is wrong because it matches services with inappropriate sources of revenue.

CUPE supports increased provincial funding for education. We believe it has been overly dependent on property tax revenue and provincial funding should be brought up to historical levels of around 60%. But the takeover of education is not justified by the massive offloading of other costs on to the local property tax base.

Figure 2 is based on the most recent available data showing local and provincial spending and revenue. As it shows, the cost of social services, including welfare, social housing and child care, have increased far more rapidly than education costs over the past decade. After inflation, the cost of Ontario's schools increased by 1.3% per capita each year between 1986 and 1994. This works out to be an additional total cost of $112 per capita during this period. The cost of social services increased each year by 16.5% per capita after inflation during the same period. This works out to be an additional total cost of $416 per capita between 1986 and 1994. The costs of housing and child care increased almost as rapidly, although the amounts involved are not as large.

The point is that the province is not only offloading more costs than it is taking over; it is also offloading costs which are vulnerable to rapid increases in response to a deteriorating economy.

Property tax revenues cannot respond to such increases. Municipalities, which are not permitted to borrow to cover operating expenses, would be forced to cut massively to prevent a shortfall.

Figure 3 compares what would have happened to local costs if the mega-dump had been in place between 1986 and 1994. To support the increased costs of social services, property taxpayers would pay an additional $208 per capita after inflation, instead of the actual increase of $34. The local cost of social housing would have increased $60 per capita, instead of the actual increase of $1 between 1986 and 1990. Similarly, the local child care costs would have more than doubled the actual increase.

The experts on public finance agree: Services which redistribute income should be funded out of income tax revenue. Local property taxes are the worst source of revenue to support welfare, social services, child care and social housing. Ontario is already far more reliant than any other province on property taxes for funding welfare and social services. Increasing the local share to 50% takes us back to the desperate 1930s, when the unemployed were dependent on charity and municipal relief. Do members of the Harris government need to be reminded of the human costs of the Great Depression, that the social programs built up after the Second World War were designed to prevent a repeat of that experience?

This government is returning to policies which caused enormous human misery and drove many municipalities into bankruptcy in the 1930s. This committee should not take my word on this matter. Listen to what the Canadian Imperial Bank of Commerce has to say in its most recent commentary:

"At the very least, a certain number of municipalities could find the increases in their responsibilities untenable, which would require them to make large cuts in those expenditures where they can. At the same time, their discretionary powers to do so are limited, since welfare policy and the like are set at the provincial level. In a worst-case scenario, the burdens on some municipalities could force them into serious budgetary shortfalls."

As the commentary notes, the contingency fund is unproven. We cannot know whether it will be sufficient

to deal with increased costs, and there is the danger it will be used inappropriately.

This brings me to my last point. The mega-dump is wrong in terms of its stated objective of disentangling government responsibilities. Who does what is less clear than ever. In fact, the responsibilities of provincial and local governments are more entangled than before. The government's announcements are full of generalities which leave very important issues of implementation unresolved. Who will decide, and how, when a municipality is eligible for emergency funding for social services? If your aim is to streamline, why expand the need for local welfare administration? If these changes go through, the outlook is bleak not only for CUPE members but also for the many Ontarians who rely on the services our members provide.

In closing, I would like to offer some simple recommendations to this committee.

First, reverse the tax cut. It is not an economic miracle cure and never will be. By undoing the tax cut, this government could avoid the irresponsible spending cuts it has embarked upon.

Second, forget the mega-dump. It is wrong to offload additional costs for welfare, social assistance, long term care and child care on to municipalities. Many Ontarians would thank you if you stopped this misguided exercise.

As you deliberate about priorities for next year's budget, I would urge you to put aside the simplistic slogans of the Common Sense Revolution and consider the real impact on Ontarians. To assist you, CUPE is working on an alternative budget with other unions and a wide group of community and social justice organizations. In doing so, we recognize that Ontario's fiscal and economic problems are not simple. They are especially challenging if, unlike this government, you are committed to rebuilding our social programs.

Our more detailed recommendations will be contained in that document. I'm not sure whether the OFL has presented that document yet, but they will be presenting it in the near future.

1130

The Chair: Thank you, Mr Ryan. We have about one minute per caucus for questions. With a division at noon, I would ask for the caucuses' cooperation in this area. We'll start with the government caucus.

Mr Wayne Wettlaufer (Kitchener): I'm a little puzzled when you say we have exhibited no interest in consulting. I think the very fact that you're here today indicates that we are interested in consulting.

I'm going to try to keep this short. Last week, I met with some retired members of the labour union in my area to discuss health care "cuts." I wanted some positive input from that committee. I received not one positive suggestion. I want to point out that our health care spending is $400 million more than any previous government in the province. I would like to hear some positive suggestions from you on how we could improve health care without increasing spending to dramatic heights.

Mr Ryan: You have two questions in there. The first one was about the consultation. Let me assure you that with the exception of Janet Ecker — the only ministry whose office I have been able to get into and sit down in a face-to-face discussion around the issues is with Janet Ecker. Outside of that, I've written to Snobelen I don't know how many times, Al Leach countless times, and the Premier we've given up on, we've asked so many times. We have been unable to get in the door to sit down face to face with any of your ministers.

Yet when AMO or any of the employer organizations have a beef, there is no question. They're in the newspaper one day complaining that there's an issue they need to discuss; two days later, you see them waltzing into the Premier's office or waltzing into some minister's office to have some consultation. We have yet to be able to get in the door to consult with any of your ministries, with the exception of social services.

In terms of the health care cuts you're talking about, you said you were talking with retired union members, I think is how you put it. You probably mean members of the public.

Mr Wettlaufer: But they are members of the union. They're retired.

Mr Ryan: But they're members of the public. If they're retired and no longer working, they're members of the public. Union members, by the way, are also members of the public.

Mr Wettlaufer: But their working group title is the Waterloo Regional Council of Retired —

The Chair: Is there a brief answer, Mr Ryan?

Mr Ryan: It would be nice if he would allow me to speak.

You've asked the public for input. What we're telling you is that we don't want you to see our hospitals closing. Mike Harris made it perfectly clear in the last election that he would not close any hospitals. Today we're seeing 10 hospitals closing.

Let me just give you one recommendation: Reverse the tax cut. If you reverse the tax cut, there is more than enough money to fund the education system and the health care system, more than enough dollars. The second thing to do is sit down with the front-line providers, sit down with the nurses, the doctors, with the unions in the health care system who work in those institutions every single day of the week, not some unelected commission. Sit down with the front-line providers in open dialogue and involve the public and involve the front-line providers. I think you'll get all solutions you need.

Mr Joseph Cordiano (Lawrence): Thank you for your presentation, Mr Ryan. I think it aptly describes the Mike Harris vision of Ontario, where a provincial government will pay less and individuals will pay more for essential public services, and they'll be paying more through their property tax increases. That's the world as it's unfolding in Mike Harris's Ontario. I think it's pretty clear, and your presentation correctly identifies that.

The question — and this is also clear, from what we're seeing unfolding before us. This government has been in government for almost two years now and it seems to me that its intention is to put you out of business, CUPE. All the initiatives they've undertaken — you mentioned successor rights, the offloading and the contracting out that will take place — are going to impact on you a great deal in the future. How do you plan to deal with this? You don't have time to answer this in the short time

you've been given, but it would seem to me that there will be more services provided in the future by the private sector and you and your membership will dwindle in size.

Mr Ryan: There's no question that this government's agenda is about privatizing as many public services as they possibly can. We've 100,000 members directly affected in the municipal and the education sector. We had the heads of all those locals in Toronto for the last two days, and they made it perfectly clear that if this government moves to introduce legislation in the area of elimination of successor rights, we would have no choice but to go on strike. If you introduce that type of legislation, we've got nothing to lose; there will be absolutely nothing to lose for our union. Our members are saying that this government will be putting them to the wall, and they will definitely strike in that circumstance.

If you want to get an idea of how this government is going to respond in the next little while, Kingston went through an amalgamation very recently. It didn't get much media attention, but Al Leach wrote a ministerial order which essentially limits the ability of the communities in the Kingston area to raise taxes. He put a 3% cap on it. I think that's destructive, because I believe what you're going to see in the city of Toronto is a similar thing. He's already proposed it once and he's been using it as a blueprint for other communities around the province. I think that's what we're going to see here.

If that happens, it means the mega-dump, all those figures I talked about — it was $531 billion for Metro. They don't have the ability to borrow, so what you have to do instead, if they have imposed a 3% maximum increase in taxes, the rest of it will be made up in terms of layoffs, direct layoffs.

Yes, CUPE members will be affected, but the services — people in the public must understand what this is about, that every time you lay off a public sector worker, you are in fact cutting your service, because that's what we are. We don't produce widgets; we provide services in hospitals, and educational assistants work directly with children with disabilities in schools —

The Chair: Thank you very much. We'll move to Mr Martin.

Mr Martin: I share your frustration re any ability to have a productive consultation with the government we have today, even to understand what it is that motivates them, particularly when I go home and see in my own community the groups of people who are bearing the brunt of the cost of their agenda: the poor, battered women, seniors, among others.

But we got a little insight this morning, the hula hoop reference by the Premier. Health care, social services and education are going the way of the hula hoop in this province. It's a telling statement and it's one we all need to reflect on. As you bring in your hired guns to our communities to determine what it is that we can and can't deliver and how we deliver it, the outcome of that is going to be brutal.

At Matthews Hospital in Thessalon, this McFall-Lyons group in the Sault coming in to do this review has suggested that the cleaning staff, in an emergency situation where there's only one nurse, now should drop their mops and assist. That's where we're going.

Sid, I think you've said it probably as eloquently as any in your presentation, but what do you think motivates this crowd, from your short experience of them to date?

The Chair: I'll ask you for a brief response, Mr Ryan.

Mr Ryan: There are a couple of questions in there. You raised the question of the Premier's comment around the hula hoop, and I'd like to focus on that for a second. That probably speaks volumes about how insensitive this Premier is. Frankly, I think he's an insensitive clown, and I don't say that lightly. Any man who stands up and draws comparisons between health care professionals being laid off resulting in, as we saw yesterday, a young child not receiving the appropriate cancer therapy or a person dying in a hospital on a hospital stretcher up in Peterborough — and that's just scratching the surface. CUPE has scores of cases, and we're going to be releasing them pretty shortly, of where the cuts in health have impacted.

For a Premier of this province not to be able to make the connection between the layoffs his government is causing — the layoff of nursing staff, the layoff of front-line providers of services and of course the angst that has caused out there in the public — and how insensitive that statement was, for instance, to the relatives of that gentleman who died on a stretcher or to that young child yesterday morning who was waiting for that cancer therapy. How insensitive can you be to say it's going the way of the hula hoop and that's what is causing these problems?

1140

I think it's going to cause fits of anger outside in the public, these cuts today. A Premier who just cannot make a connection means to me that he doesn't understand the health care system, he doesn't understand the high-tech nature of the industry. He does not understand the professionals who work in the system. He does not understand when he makes the cuts how it impacts directly on the public, and it speaks volumes. In one way, I'm glad he made the statement because it says more than anything else about the lack of understanding of this government and the cuts and the impacts that they're causing out there to the public.

The Chair: Thank you very much. We appreciate you taking the time to present to us today.

We now welcome the Ontarians for Responsible Government.

Mr Frank Klees (York-Mackenzie): On a point of order, Mr Chairman: While Mr Brown is coming forward, Mr Ryan makes reference in his brief that he is preparing an alternative budget. I wonder if we could have the clerk be in touch with Mr Ryan and ask him to submit to this committee that budget so that we can have it in good time for consultation. Also, could the clerk ask Mr Ryan to let us know which groups he has consulted with in the course of preparing that alternative budget?

The Chair: We can make that request.

ONTARIANS FOR RESPONSIBLE GOVERNMENT

The Chair: Mr Brown, we have 30 minutes to spend together, or until a division bell goes off, which is usually

a few minutes after 12. That clock on the wall is a little fast, so I think we can get 30 minutes in. Go ahead.

Mr Colin Brown: I'll make it short and sweet. I guess I should start off by saying, "And now for something completely different."

I appreciate the chance to speak to you today. My name is Colin Brown and I'm the president of Ontarians for Responsible Government. As our name suggests, we at ORG believe in responsible government. That means we believe in government that is careful with tax dollars. That means we believe in government that's efficient and, most of all, we believe in a government that promotes economic freedom.

We came into being around in 1991 to oppose and expose the ruinous socialist policies of Premier Bob Rae and the NDP after his first budget. For four years we battled that government and ultimately contributed to its defeat at the polls in 1995.

Today we continue in our role as a watchdog on government. In fact, when Mike Harris became Premier, we put up a billboard in downtown Toronto which read: "Good Luck Mike! We're watching," and we have been watching.

Indeed, if we were to grade this government's economic performance to date, we would give it an A for its efforts to cut spending, we would give it an A for its tax-cutting program, and we would give it an A for its move to trim MPP perks and pensions. When it comes to privatization, however, we would give this government a D. To put it another way, and to put it in the context of these hearings, we believe this government's next provincial budget should stay the course on spending, stay the course on tax cuts, but it should get moving on the privatization of provincial assets and services.

Of course, of these recommendations, the least debatable is our call for the spending cuts to continue. All across the country, governments of all political stripes have come to realize that they need to cut back on spending if they are going to get their deficits under control. It's no different here in Ontario, where just a few years ago we faced a deficit of $11.2 billion. Now, thanks to vigorous cost-cutting measures, the deficit is progressively getting smaller.

That's good, but more needs to be done. We will need billions of dollars more in spending cuts to reach the balanced budget target by 2000-01. We hope that the 1997 budget sets out a clear roadmap as to how that target will bet met. Then, when that target is met, we will need to start trimming the monstrous provincial debt.

This leads to our second recommendation that the tax cut plan continue as scheduled. Needless to say, these tax cuts triggered great debates when announced last year and no doubt this committee will hear and has heard recently from some who would argue that the tax cuts be scrapped. We would see this a major error for several reasons.

First, Ontarians deserve a tax break. Years of tax-happy governments have left this province with one of the highest top marginal rates in North America. It's time to turn that around.

Second, lower tax rates stimulate savings and investment, which are critical to economic growth. They also encourage entrepreneurial activity to create incentives to work. All of this makes for a faster growing economy that is more likely to create jobs in the private sector.

A third reason for keeping the tax cuts is the most straightforward. Simply put, Ontarians voted for a tax cut and they should get it. Likewise, Mike Harris promised a tax cut and he should deliver. In this day of cynical politicians who routinely lie to win votes, we need a government that actually keeps its word.

Finally, the tax cuts, combined with spending reductions, will help the government reduce the deficit. To some that may sound strange. However, evidence in the United States and around the world shows that income tax reductions are an economic stimulus which in turn results in higher revenues for governments. You only have to look at Michigan, where several tax cuts since 1991 have resulted in a budget surplus.

Recall, at the beginning of my talk I gave the Conservative government a D for its privatization effort. That's a sorry grade for a government which came into power exalting privatization's virtues. Indeed, the Common Sense Revolution booklet correctly noted that history has shown that the private sector can use public assets more efficiently and provide better services to the public. Yet since coming to power, the Conservative privatization program has been next to non-existent. The only move to date has been some mild proposals that recommend the sale of the Ontario Place theme park and a local convention centre.

This, to us, is a mind-boggling lack of action for a government that says it's committed to making government smaller and more responsive. After all, privatization has shown itself to be the most reliable, most efficient and most popular method of reducing the size, cost and scope of big government. Yes, as already noted, this government has done a good job of cutting spending, but spending cuts aren't enough. We must have permanent structural changes. Only a comprehensive and widespread privatization program will turn this province around and restore its long-term financial health.

Today Ontario is burdened with dozens of publicly run corporations and agencies that are costly and inefficient. Imagine if they were sold off, transferred to the private sector, and exposed to the discipline of the market place. The first benefit is obvious. It would provide a much-needed cash injection to aid in the government's battle to slash the deficit.

Then there are the long-term benefits. Instead of being drains on the treasury, one-time government operations would be competitive, market-responsive companies which pay taxes and add to government revenues. Even better, these privatized companies would provide the same services as before, only more efficiently and at lower costs. In other words, privatization is a way for governments to cut bureaucracy, cut costs, and cut taxes without cutting back on needed services. In fact, services only get better. Yes, when it comes to deficit cutting, privatization allows you to have your cake and eat it too.

Of course, the importance of privatization goes beyond just dollars and cents. In fact, privatization transforms society by taking power away from bureaucrats and politicians and handing it to the people, where it belongs.

As if that's not enough, privatization provides another important benefit in that it ensures that consumers can no longer be held hostage by public service union bosses. Right now, whenever a public service goes on strike, consumers, who have no alternative, are denied a basic service. This not only provides the union bosses with great power, it shortchanges consumers, who expect and deserve the services they pay for. Privatization gives consumers a choice.

It's important to remember that privatization is not some radical, untried theory. It's a practical policy and it works. It has worked in numerous countries around the world and it can work here too. As a model, we can look to the United Kingdom, where in the last 18 years they have privatized practically everything, literally hundreds of different agencies and organizations, with a variety of methods.

Anyone in this committee who would like to learn more about Britain's privatization experience should get hold of this book, entitled Blueprint for a Revolution, which was published by our parent organization, the National Citizens' Coalition. It's written by an international privatization expert named Madsen Pirie and it talks about proven methods to restructure government, make it smaller, less costly and more effective.

Of course, you don't really need a book to know which agencies in this province are prime candidates for privatization. Three examples come to mind.

First and biggest, sell off Ontario Hydro. This outdated monopoly should have been sold off years ago. Anyone passing by Bay and Gerrard streets will see a billboard we have put up which reads, "Power to the People, Privatize Ontario Hydro." That about says it all. We think a privatized Ontario Hydro would provide better service at lower costs, a better deal for the consumers.

Next, sell off TVO. Originally established to focus on education, it has drifted away from that mandate to become a publicly funded broadcaster that's trying to compete for prime-time audiences. Simply put, the government should not be in the broadcast business. It especially should not be in the broadcast business in a day and age when consumers have so many television options provided by the private sector.

1150

Finally, there's the LCBO. Here's a holdover from Prohibition days that, if privatized, would provide better service at lower prices. Any Ontario privatization effort, however, should learn from what's happened in Alberta, where they recently privatized their liquor board. Although the Alberta program is an overall success, we shouldn't repeat their mistake of privatizing only the retail outlets for alcohol sales. We should privatize the whole thing and not alow government to retain its monopoly on liquor wholesaling.

To conclude my presentation, let me recap what we would like to see in the 1997 budget. Keep cutting spending, keep cutting taxes, and start privatizing. It would be tragic if, at the end of its mandate, this government, which pushed so boldly on the first two fronts, neglected to follow through on the most fundamental and the most far-reaching changes it could possibly make. Thank you.

The Chair: Thank you very much, Mr Brown. That leaves us with about five minutes per caucus. I see that the House has adjourned early for some reason, and therefore we will be able to fill our five minutes. We'll move with the first round of questions to the opposition, Mr Phillips.

Mr Phillips: As we've talked before, I used to caddy for your dad at the old London Hunt Club. I'm getting on now. At least it wasn't your grandfather I was caddying for, but it was your father. Maybe it was your grandfather too.

Mr Colin Brown: Could have been.

Mr Phillips: Time marches on. In any event, we've been looking for the big job creation payoff that's been promised with the tax cut and freeing up the market. I have been and I think most have been very surprised at the fact that we've lost 37,000 jobs in Ontario over the last five months for whatever reason. Our youth unemployment continues to be exceptionally high.

The promise in the Common Sense Revolution was for 145,000 jobs a year, 12,000 a month, so it's come as quite a shock to us that we've actually lost 37,000 jobs in five months, when in theory we should be seeing 60,000 net extra jobs created. Why would you think that has happened over the last five months in Ontario?

Mr Colin Brown: I can't really speak to that, but I will say that the type of things that we're suggesting — privatization, making government more efficient, getting these very costly big services lean and mean and out into the private sector — has a net effect of creating jobs, and the reason is the debt burden and the high tax loads that are required to maintain these things. For example, Hydro goes back to Sir Adam Beck's vision of power at cost. I think consumers have found out what cost that really is.

The net effect is that you will create more jobs because there will be better and more efficient operations. I think that what really holds down economic growth are high tax rates which are necessitated by extremely high debt levels and unless we go after that first, we won't achieve the second.

Mr Phillips: Do you think the government was incorrect then when it said their plan would create 145,000 jobs a year, if we've lost 37,000 jobs in the last few months?

Mr Colin Brown: If the government in fact said that it was an estimate. You have to see at the end of this term how the government stacks up. I can't speak to just what's happened in the window you're talking about. But if all these ideas which have worked around the world end up not working in Ontario, the government will pay its price at the polls.

Mr Phillips: You've indicated that it's very important to keep the tax promise. How do you rank that promise alongside other promises, such as, "We won't touch the classroom"? There was a Mike Harris task force on Metro saying, "We will retain the cities of Scarborough, North York, Etobicoke and Toronto, and get rid of Metro." He had no plan to close hospitals. I gather it's very important that he keep his promises. Do you rank education and health in the same vein of promises as the tax cut, or would you say keep the tax cut and break the other promises?

Mr Colin Brown: I don't think a politician should break any promises, but the tax cut is fundamental to putting more money in the hands of consumers and making what feeds government smaller. You know, government is like a beast and you have to starve the beast. You have to lower the amount of revenue that's coming into the government in order to make government more efficient. In terms of the examples you were talking about a moment ago, there are enormous opportunities in all those areas. In some cases, we're hung up by the Canada Health Act, in some case we're hung up by other things, but there are enormous opportunities to deliver the same, if not, better services, as they have found in Britain, at the same or lower cost to the consumer, to give consumers a choice, if we could only get moving on them. I don't have quite as negative a picture long-term as you do, Gerry.

Mr Phillips: Mike was the man of the year of your organization wasn't he?

Mr Colin Brown: That's right. Yes, he was.

Mr Phillips: Is it person of the year or man of the year? I guess person of the year.

Mr Colin Brown: We have had women, you know. Barbara Amiel won once.

Mr Martin: I have sort of a two-part question. One is, who do you speak for? I know that in your brief you mentioned that you're a spawn of the citizens' coalition. Who supports you? Who do you speak for? What do they and you have to say to the victims of this agenda out there in our communities: the people who are not able to find work, particularly the young people who aren't able to find work; the number of small businesses that are going bankrupt at a record pace these days across the province and particularly in northern Ontario?

What do you have to say to people who go to hospital, such as Mauno Kaihla in my community, and end up dying in some tremendous indignity? What do you say to the family of the person who died on the gurney at the Peterborough hospital and all of the poor people out there who now have to learn to live with 22% less than they were living on before, knowing that there are no new jobs out there for them? What do you have to say to those people?

Mr Colin Brown: First of all, as to who our supporters are, we have in Ontario about 7,000 supporters who have voluntarily joined our organization. They've seen our billboards or gotten a telemarketing call from us or seen our direct mail, and they support our campaigns. They are generally, I would say, low-middle-income types of people. A lot of them are small business owners. We do not represent big business in any way because we typically go after government. We're against any type of subsidy that government would ever give a big business.

I'll tell you that these people, our supporters, are just as concerned about the type of things you talked about. They want to hire people for their businesses. They want to contribute to their communities. They want to expand their businesses. The problems they have had in the last five to 10 years is that it is so costly and so uncompetitive to try and start a small business or run a business in this province because of the myriad of regulations, the high and uncompetitive tax rates, that it has been an uphill battle.

1200

They don't care any less about these things than you do. Not only that, for your story of the tragedy in the health care system, I can relate a story to you of the father of one of our supporters who died on a waiting list in Sault Ste Marie, and that was about three years ago, because he believed in the health care system and he went down saluting.

I would suggest to you that the problem we've got is structural, It's deep. It needs very fundamental change. We have to do some very big thinking, but the key to it is to get the Canada Health Act out into the light of day and allow movement to get some privatization and open up the marketplace in health care, hydro and all these areas so that we're not stuck with very heavy, bloated, top-heavy systems that simply cannot respond in the realities of today.

Mr Jim Brown: Welcome, Mr Brown.

The Chair: No relation?

Mr Jim Brown: No, no relation.

Mr Hudak: Spiritually.

Mr Jim Brown: Spiritually, yes. I think you were here when Mr Sid Ryan of CUPE made his presentation. He made a comment that he recognized that there was a growth of 90,000 new jobs and he said that the increase in growth in employment is due almost entirely to lower interest rates. Ontario being maybe 40% of Canada and the fact that we are on the right course, you know, the interest rates then, which are a market phenomenon — it's not that anybody can rig the market. It's a function of the value of the dollar and the demand for the dollar and interest rates. It's my impression that the market then would say, "Ontario, being 40%, has really cleaned up its act and has permitted these lower rates," which is the spur to the 90,000 new jobs. These are Mr Ryan's comments. I wonder if you could —

Mr Colin Brown: I would concur with that. It's a vote of confidence. When we saw the first NDP budgets, they immediately cost Ontario taxpayers hundreds and hundreds of millions of dollars in taxes because the rating agencies moved in. As you say, it was a market response. To say that it's just a phenomenon of interest rates means that your economy's running pretty well, that there is enormous investor confidence out there. I have a lot of trouble finding trouble in that. At any rate, I suppose Sid has to find some reason to justify it.

I think the current economic climate we've got right now, the lower interest rates, is certainly helping Ernie Eves, helping Paul Martin, but please don't be sucked in by these people who say: "Now we've found some money. Now we've saved some money. We've actually created some cash and with the savings we now have, let's go spend it. Let's give some money back to the system which created the whole mess in the first place." Beware of that, please. Keep doing what you're doing, because the moment you start turning back, you might as well have not started in the first place.

Ms Isabel Bassett (St Andrew-St Patrick): Thanks, Colin, for your presentation. I want to pick up on what you said about privatization. As you know, the Premier

said in the CSR that we were going to look at privatizing various things, but we don't want to be driven by ideology. When you look at something like the LCBO, which is one of the things you recommended we privatize, we make $685 million or something a year out of it. I guess my question to you is, would you say we should step back and look at each thing individually or should we privatize just to privatize because that is in theory a better way to go, in your view of it?

Mr Colin Brown: Isabel, I think if you look at the economic case for each one — you talk about the liquor board, $685 million. I'd like to see a set of numbers worked up to an Ontario market from an Alberta market in terms of the tax base that's being generated from the privatization of liquor sales in Alberta. My guess is that the treasury would get a lot more if it was put into private hands.

Ms Bassett: Could you just say why the treasury would get a lot more?

Mr Colin Brown: Because there would be more business. You would have more people out in the marketplace paying taxes. There would be more outlets. There would be competition. There would be simply more revenue coming in on it because of the fact there would be more consumer demand.

At the same time though, I don't think you should privatize only for a reason of political philosophy, but I haven't seen a case to be made against it that can disprove it economically really anywhere in the world. For example, if you look at Hydro, the studies are in at Hydro. They've had them done. Wood Gundy I think put a valuation on what the sale would bring, which is not so much the concern. Because Hydro's got so much debt, it's not so much the cash you would get, but it's a very viable entity and it would be a win-win for the government and the taxpayers.

The Chair: Thank you very much. We appreciate your presentation to the committee, Mr Brown. Thank you very much for appearing before us today and working under a somewhat flexible schedule.

There being no further business to bring before the committee, we will recess until 3:30 this afternoon.

The committee recessed from 1206 to 1541.

BANK OF NOVA SCOTIA

The Chair (Mr Ted Chudleigh): We welcome the committee back and we welcome the Bank of Nova Scotia as an expert witness: Mr Warren Jestin, senior vice-president, Bank of Nova Scotia. We have an hour together. We'll proceed with your presentation and follow up with questions, if we may.

Mr Warren Jestin: Thank you, Mr Chairman. My colleague Aron Gampel is deputy chief economist at the Bank of Nova Scotia.

What I'd like to do is provide an overview of where we see the Ontario economy going over the next year or so. I must admit it's about the best forecast I've been able to deliver throughout the 1990s. It's been a fairly bleak period of economic performance, but I believe 1997 and 1998 are going to be the best back-to-back performances we've seen in nearly a decade.

The theme of our report is Ontario Gets Back on Track, and we see this in many sectors of the economy. What's happening in 1997 is that a broader, more durable basis for economic growth is being put in place. If you look at the newspapers, you'll see quite repeatedly that Canada is picked as the strongest performer among the G-7 in 1997 and I think you'll find that some analysts would pick Canada for 1998 as well because of the improving fundamentals. It's not only because of external trade, which remains the backbone of our economic performance, but it's also an improving outlook for a broad array of other areas in the economy. So the theme becomes that we are not only having a faster rate of growth but we are having a more sustainable and broader basis for expansion.

While I won't be going into our financial market forecast in detail, I think it's important to note that we believe the interest rate and the exchange rate environment will be quite conducive to a fairly solid economic performance. I do expect US interest rates to be rising by midyear, perhaps up half a percentage point or a little bit more, and Canadian interest rates would follow suit. But even when that occurs, our interest rate structure will remain extremely low by the standards of the last two to three decades.

We also believe that the Canadian dollar, after some jitters through the first half of this year, will be getting on to an appreciating track. I wouldn't be surprised if by the end of the year we're closer to 75 cents, but again, the improvements we're seeing in cost performance relative to our principal trading partner, the United States, are more than offsetting those and we will have another excellent trade year. The dollar certainly is not an impediment to that and I don't think it will be an impediment to that even if it rises further in 1998.

The balance of my remarks is really going to focus on Ontario and where we see Ontario going. In short, we believe Ontario will be number two in growth performance not only in 1997 but also in 1998. The chances of our moving into first spot I think are fairly remote, not because the prospects aren't good here but because the prospects are absolutely stellar in Alberta and it would be extremely difficult for any province to catch Alberta over this period of time. Nevertheless, we would expect GDP in Ontario to advance by about 4.2% this year, perhaps slightly less next year, versus something around 4.5% in Alberta. This marks a big improvement from last year, where we saw overall growth of just a little over 1.5%, perhaps 1.75% growth. It's largely, as I said, because the economy is firing on a lot more cylinders.

First of all, we believe exports will remain fairly strong. We are quite confident in the outlook for the US economy, and that is our principal market in Ontario, but we're also seeing a renewed upturn in non-residential construction which is going to reinforce and sustain the strength that we've been seeing in business spending on machinery and equipment.

Finally, I believe we're going to see an improvement in consumer spending. It's not a barn-burner of a recovery. People aren't going to be running to the stores to shop, but I think they'll be walking at a faster pace than we saw certainly in 1996.

When you put that all together with the fact that the housing market has turned, that home sales have improved very dramatically, and that's going to really put a lot of momentum into residential construction, the outlook, in our view, is very promising.

A lot of the good news that I've been talking about so far, of course, is very good news for government as well. Not only is the federal government outperforming vis-à-vis its targets, but I think the provincial government will do so and continue to do so. Combined with ongoing expenditure restraint, fairly strong revenue growth and very, very low interest rates, we think the news gets much better on the fiscal scene at both the federal and the provincial level over the next couple of years.

The big shift and the most important shift that we're seeing in the economy is really on the consumer side. Quite honestly, it's not hard to be negative about the outlook for consumer spending. You've heard all the statistics: Debt relative to disposable income is at a record level. Disposable income isn't growing all that rapidly. You have a demographic shift in favour of savers and away from spenders. The savings rate in Canada is very, very low, so not only is the balance sheet on the consumer side fairly fragile, but the income flows are also really constraining the growth of saving.

But you really have to look at the outlook for consumer spending relative to changes that are occurring on a year-to-year basis, and here I think the prospects are more encouraging. First of all, we have the lowest borrowing costs in roughly four decades, and this has provided a great relief for the heavy consumers, the heavy debtors in our economy, the 25-to-44-year-olds who are establishing a household and spending much more than the older groups, who tend to be focused much more on saving. So by itself, we think there's a powerful thrust built into retail sales just on the basis of lower interest rates alone.

We're also getting a more fundamental improvement in the job market. You can see that in employment surveys, you can see it in help wanted ads, and as our report indicates, we expect about 125,000 new positions to be created in Ontario in 1997. It's a big improvement from last year. It's not as fast as we saw certainly in the 1980s but it's an important step in the right direction. I haven't got a forecast in here for 1998, but again I would expect that this strengthening that we're seeing in private sector employment generation will continue into next year.

The question is where it's occurring. Obviously, the construction industry will be a major turnaround. We expect manufacturing to be stronger. It wasn't too many years ago when we expected manufacturing to be on a fairly substantial downward spiral for a long period of time, a hollowing out of manufacturing. Times have changed and manufacturing is doing very, very well. Over half of what we produce in this country in the manufacturing sector is now exported and, as I said earlier, the export prospects are fairly good.

Moreover, in Ontario not only the growth of employment is improving, but we're finally past that big hole that we dug ourselves into in the early part of the 1990s. Last year we finally got up to the previous peaks of employment and we're establishing new ground. I might add on top of that that we're seeing more full-time employment being created. For a long time in the 1990s we were destroying full-time jobs and creating part-time jobs, and the change in that trend is obviously very good.

As a result, if you wrap up what I've been saying on the employment side and you add to it that we believe wage settlements are going to move up a little bit, you get an increase in disposable income gains in 1997 that will be stronger than the rate of inflation. That's the first time the average person in this province will have an inflation-adjusted income gain in seven years, so that is a very positive factor on a go-forward basis, and the rate of growth that we're expecting in disposable incomes in general in this year is about as strong as we've seen over the last three years in total, so it's a very significant improvement indeed.

The final point on the consumer side which I think is worth pointing out is that consumers are beginning to release some of their pent-up demand. A lot of this depends on confidence. Nobody is going to be spending if you're reading in the paper day after day that there are a lot of layoffs, and obviously firms that are in serious financial difficulty, big stories on that are going to give concern to the average consumer and that may cause a little bit of a setback. But overall, if you have stronger employment, stronger income gains, it is a confidence booster. With this pent-up demand there, we expect things like auto sales to be improving in the province — that's good news, of course, for one of our key industries — and we would expect in general if the housing industry is doing well that durables such as furniture and appliances would be doing well.

1550

So consumer spending doesn't lead the economy; it depends on strength in other areas of the economy. Consumers aren't going on a marathon recovery; they're going on sprints much more than anything else. When the Visa bills come in, they pause a little bit to pay them down perhaps. But nevertheless, the environment for consumer spending is better today than we have seen at any time in the 1990s, in my view, on a fundamental basis, on a go-forward basis.

We're also seeing a big turnaround in the construction sector of the economy, and the construction sector of the economy is one of the more cyclical ones. It's one of the ones that can add a lot of impetus to the economy in a short period of time. We believe provincial housing starts are going to be around 52,000 this year. It's certainly well less than the pace in the late 1980s, but it's the best performance we've seen since 1992.

You've probably heard about this from other speakers, but the technicals in the housing market are very good in terms of the sales that are occurring, particularly in the GTA, the fact that we haven't been building a lot of new housing, particularly in certain categories, for a long period of time, and the fact that affordability is better now than we've seen in a long, long time. For example, just 21% of pre-tax family income is required to carry the payments on an average-priced Toronto home nowadays, and this compares with over 34% at the end of the 1980s.

The outlook for 1997 that I've been painting is a fairly optimistic one, but we've already seen some statistics to date that support that. Metro Toronto sales on the housing side are off to a very good start with purchases in January and February up a solid 44% from a year ago period. Again, as the housing industry is picking up in terms of sales, inevitably it spills right into the construction side. When I talk to home builders across the province and in the GTA, I'm seeing a lot more smiles on people's faces, a lot more optimism today than I have seen in a long, long time. Clearly it is a real change, a real sea change, in market activity.

It's not only first-time buyers, who are really influenced by affordability; it's the move-up buyer that we believe is going to be back into the market, tentatively perhaps in 1997, but there, and that's really keyed off of an improvement in confidence. The fact that we are moving into a much stronger growth I think is going to build confidence in 1997.

The turnaround in housing activity that I've been talking about also points to firmer prices in Toronto and Ontario. Not too many people who own houses in the GTA and in Ontario are very happy with what's happened to housing prices through the 1990s, and I think this is the first year that you're going to see a sustained increase on the price side. Typically, if you look at MLS data, particularly for the GTA, you've been seeing a moving down in the average price because people have been buying progressively less expensive housing, but if we have the move-up buyer back into the market and the technical factors are tighter, we're going to begin to see an improvement in the overall price, and for a home owner there's nothing better in terms of being a confidence builder than to see the principal asset moving up in price certainly rather than down in price, which has been the case for too long.

There's also a big change in one other component of the construction area, and I should point out too that renovation activity we expect to be very strong. We mention in our paper that it's an $8-billion-a-year expenditure item. It's very, very large even relative to new construction, and we see that picking up, but the big change that we see in construction is really coming in the non-residential side.

For a number of years, non-residential construction has been going down. All you have to do is look around the area to see the casualties. The uncompleted Bay-Adelaide centre, for example, is a good monument to the shift from full ahead to reverse that occurred at the beginning of the decade. Now we're seeing a shift. The shift isn't from a fall to a sharp rise. I'm not expecting another commercial construction boom in Toronto or in the province this side of the year 2000. But what we are seeing is a shift from decline to a more stable footing and a tentative rise.

Indeed, we had a survey done by Statistics Canada and released a few weeks ago that is pointing to this revival in non-residential construction. In that survey, both machinery and equipment investment and non-residential construction are expected to rise by about 4% annually in 1997. I believe the trend that we've seen change this year is going to continue into 1998. So the whole area of construction, being residential or non-residential, bodes well for our performance in the current year.

The export industry, of course, is one that is very important to Ontario. If you look at Canada and strip government out of the equation, just look at the private sector, I believe we have now passed the 50% mark in terms of export orientation. In other words, more than half of what we are doing in this country one way or another is oriented with external markets: very good news when the external markets are growing; not so good news, of course, when they are in retrenchment. But we're optimistic about where the US is going over the next year or so, so it looks like it's going to be a bright area.

The volume of foreign sales in Ontario has expanded by almost 50% since the beginning of the decade. As a result, this province, this country, is now the most export-intensive of all the major OECD nations.

Why do I say the outlook for exports is encouraging? When I look south of the border, I see a broad-based expansion. Disposable income gains are roughly twice what they are in Canada, so consumer spending will remain on track. Business investment remains solid. The housing industry is perhaps not going to be increasing in terms of overall activity but remains at a very high level. We believe one of the surprises in 1997 for the US is going to be a much firmer export orientation, much firmer on the export side for that country. So overall we see growth south of the border at about 3%. That suggests a fairly substantial gain for Ontario, because over 90% of what we export is going south of the border.

What I haven't indicated in the paper but is probably worth mentioning as well is that increasingly, exports I think are going to be oriented towards offshore markets, into the fast-growing Asian economies. Not perhaps in 1997 but beyond, 1998 and 1999, the markets in Latin American hold a lot of promise for Ontario producers. So initially this year, but as we go forward, more broadly in an international context, I think the export sector is going to remain on a solid footing for the next few years.

In terms of our major industries, production of motor vehicle and equipment is expected to set another record in 1997, and of course most of that is exported to the US. It may seem a bit surprising that I say that when our overall forecast for US auto sales is down this year relative to last year. The explanation for that is fairly simple: We are producing the type of vehicles that are wanted in that market. We're essentially gaining market share, so even if that market begins to cool off a little bit, we think we will do better.

But the good news, I think, expands beyond the auto industry and the industries that are directly related to it. It goes into other segments of the economy in the high-tech industries. I've just done a series of discussions with customers, actually over the last 48 hours, in places like Hamilton and Ottawa and Oshawa and Markham. I'm talking to customers all the time, and one of the things that amazes me, not only in Ontario but across the country, is how many new small and medium-sized industries are starting up and doing very, very well, and the high-tech industry is certainly one of the ones that is growing by leaps and bounds. You may not read it in the front pages of the papers, because they don't have enough employees yet. You read it in the Toronto Star in

the business section on the weekends because that tends to be the focus there, and I think that's a very useful barometer to have in the Toronto Star. But over all, we're seeing growth in the high-tech sector of about 10% annually, and it is becoming a much more solid contributor to growth as the years go by.

A final area in the economy that I haven't talked about yet is the service sector in general, which has been more sluggish — it's not as cyclical as on the good side — and it's been underperforming for much of the decade, but there are some strong parts there. It's been my view for some time that tourism will be one of the hot industries in Canada over the next few years. Tourism is one of the largest industries, if the not the largest industry, in Canada on a broadly defined basis and it's very important for all provinces. It affects most cities.

We are going to be doing very well not only because we are a bargain-basement vacation destination compared to other ones. We also will be doing well because the average income in countries particularly in Asia is going up so rapidly that people who a few years ago might not have been able to travel will be able to travel, whether it's this year, next year or the year after that. As they travel, Canada — Ontario — is going to be very high on the destination list. So tourism in our view is going to be a very important supporting industry. It's labour-intensive too, so it creates jobs.

1600

The housing industry is also on the rebound. It has created more activity in the real estate segment of the economy.

Even financial services, which have not been growing at an extraordinary rate, have an important contribution because they are very solid and stable contributors to the economy. I brought along a report that was produced by Boston Consulting for the Bank of Nova Scotia on the current and the potential role of financial services in the GTA. I think you'd find it interesting. Certainly in terms of overall impact on the GTA, it is the driver of economic activity.

There are a lot of stories in the paper suggesting that the industry is laying off and downsizing. I can tell you at the Bank of Nova Scotia over the last two years we have added well over 1,000 jobs. We are adding jobs this year and we see quite a lot of opportunity for expansion. I think there is quite a favourable outlook for financial services, and that is an industry that we have that is a success story in this province and in this city.

What does it all mean for the government in terms of the fiscal environment? Obviously the combination of low interest rates and slower growth has been very powerful in terms of its support for deficit cutting. If you look at the federal level, we've chopped about $10 billion off the deficit, according to official estimates, over the last year. Quite honestly, I think that's a very cautious estimate of what's going to happen. I would be astonished if at the end of the year, when the figures are finally released, the deficit is as high as $19 billion. While the government is officially shooting at a target of $17 billion next year, I wouldn't be surprised if it's much closer to $12 billion. So the era of rapid improvement is there. In fact, I believe this is the watershed year for Ottawa in terms of fiscal performance.

We talk about when the deficit is going to zero. Take a look at the Bank of Canada's statistics and you'll find over the last year that government has virtually stopped borrowing in financial markets already. It has a lot of pension funds flowing in that are captive funds; asset sales have been helping. I believe on a sustained basis the federal government will be able to get out of the borrowing game within the next 12 to 18 months. Their financial requirements are minimal, and you can see the impact of that reduction in financial requirements every day when you go and want to borrow for a mortgage or when you want to look at credit. The decline in interest rates firmly reflects this vast improvement that we have seen.

Ontario is also making fast and unexpected headway, and this has already been announced. The deficit that was projected around $8.2 billion at the beginning of the year has already been cut back, and it's my view that when the year is over with, you'll see something that is well under $7.5 billion, probably closer to the $7-billion mark, because we believe the solid basis of recovery that we're going to see and extend into retail sales and the like creates a very substantial amount of revenue growth. In fact, and this number may certainly not be the consensus, we believe the deficit in the upcoming year could be closer to $5 billion, both because of stronger revenue growth and because we certainly don't think that the contingency reserve is going to be needed in this type of environment.

Even then, Ontario, as you all know, is lagging most other provinces. We've got six provinces now that are in a surplus position and the talk there is what you do with the surplus, whether you pay down debt or not. So the move has very clearly gone beyond the deficit reduction issue.

It is important to remember that the type of economic environment that I'm sketching right here, which is much stronger than anybody would have expected even a year ago, can change fairly significantly. The next time I'm here I may be talking about a sudden change for the worse. I don't think it's going to happen, but inevitably economic forecasting involves quite a bit of crystal ball gazing, and those crystal balls are fairly cloudy at times.

So what I'm saying here is that it's important to take the very positive news that we have seen recently and to build on it and to make extra progress in reducing the deficit to reduce our vulnerability to unexpected deterioration in the economy or financial markets.

With that, I'd like to open it up to questions.

The Chair: Thank you very much. We have perhaps eight minutes per caucus, if we would like to start with the opposition.

Mr Phillips: I appreciate the presentation. I've been around here a little bit longer than some others, and you tend to be the more pessimistic of the economists normally, so this is quite an encouraging outlook that Nova Scotia is presenting here and that's very pleasing.

One of my big interests, or our interests, is in the job front. I see you're predicting job growth of around 2%, employment growth 1.9%. We've been very puzzled, actually, by what we regard as the weak job performance in Ontario over the last few months. The numbers come out tomorrow. My expectation is that they should be

fairly good, but it looks like we've lost 37,000 jobs over the last five months. This report, which you'd be familiar with, indicates that in 1996 there were 35,000 full-time jobs created in Ontario; the previous year it was 72,000. The youth unemployment continues to be a huge problem. The bank association was in the other day with kind of a joint forecast, if you will, predicting job growth over the next two years at around 2% a year, which is between 100,000 and 110,000 jobs a year in Ontario.

This is probably the number one issue for us in terms of the economy. How should we look at job growth? We asked the Ministry of Finance officials how you look at job growth and they said the rule of thumb is real GDP minus one percentage point; in other words, real GDP growth at 3%, job growth at 2% and I guess productivity improvement of 1% or something like that. Can you help us out at all in terms of what we should be thinking about in trying to project jobs, and are the last five months merely an aberration, a strange statistical aberration?

Mr Jestin: It's a very good question and it's a challenge, obviously, for everybody in this country. The unemployment issue, the lack of job creation, has been the most vexing problem we have in Canada during the 1990s. I believe that given the strength we're seeing in so many sectors of the Ontario economy, that over the next few months you will see a regaining. In the last two months you have had decline in employment alone. I'm fairly optimistic about what we're going to see over the next two to three months in that area because the employment data themselves really do fly in the face of a large number of other indicators, suggesting that it should be stronger. There may be a lag in the pickup, there may simply be a statistical quirk in the seasonal adjustment process that is applied to these numbers, but overall I think you see the acceleration flowing out of the better economic outlook. Moreover, I believe that the full-time component is going to be coming faster.

In order to get the unemployment rate down substantially, though, you really need a whole lot stronger job creation than we're having in this particular forecast. One of the problems with getting the unemployment rate down is that as employment begins to accelerate, you're going to get a lot of people who have dropped out of the job market coming back in. Ontario has had a lot of dropouts; the labour force participation has gone down. So the recorded unemployment rate is going to remain painfully high even at a time of accelerating employment gains.

In terms of the relationship between productivity and growth, over a long period of time you might expect a little over 1% in product activity. Certainly over a very short period of time the differences are very substantial. For example, last year, it's widely believed, the BC economy was showing virtually no growth at all. It had three times the employment growth of the national average last year, suggesting that productivity was negative. So over a short period of time, even a period of up to a year, it's very difficult to put a lot of faith in the month-to-month trends. Aron, you might have something to add. Aron has been looking a fair bit at the employment side.

Mr Aron Gampel: I would just add, Mr Phillips, that looking at the numbers in trend forecasts on a monthly basis is exceptionally difficult. Looking at the Stats Canada numbers, the job performance through 1996 I would classify as steady job gains, because through the first half, roughly, it was divided equally between the first and second half. I would think we're creating jobs. We're, just like many other provinces, having a hard time generating a much faster momentum. But I think, as Warren indicated, the sectors that are likely to do better over the next little while are ones that are really home-grown types of activities, especially on the construction side, which I think could be a very big winner. The spillover both in terms of new construction now and the renovation side should boost that sector up quite sharply this year and take away some of the problems we're seeing maybe in the retail area, which still looks to be under some consolidation.

1610

Mr Phillips: My recollection was that the Bank of Nova Scotia did a study on the number of people who have dropped out of the labour force. Can you refresh our memory on that and what numbers you think may be out there, out of the labour force right now, that will be drawn into the labour force over the next two or three years.

Mr Jestin: The study you're referring to was done last spring. We simply looked at what unemployment rates would be in Ontario and various other provinces if the labour force participation had stayed the same as it was back in 1990. According to Statistics Canada, a lot of the decline in labour force participation has been due to people going back to school for higher education.

It is interesting to look at the provinces that have been doing relatively better, such as Alberta. They have not experienced the decline in the labour force participation nearly to the extent of the ones that have had a real problem with job losses. Moreover, the US has not had a decline in the labour force participation as well.

We think it's a valid correction to look at to get an indication of an underlying or a subterranean problem that exists which is not reflected in the jobless number. I'll give you the example. In Ontario, our labour force participation rate has gone down to 65.6% from 70.5% at the beginning of the decade. That is a huge decline and suggests that a 9% unemployment rate, if we had a participation rate back to where it was at the beginning of the decade, would be something in the order of 15%.

This is the challenge we face. As I said earlier, it's important to create the jobs. We're going to be creating jobs a faster clip, but it's going to be frustrating that the unemployment rate doesn't decline as fast as we want simply because we have to reabsorb the people who have, for one reason or another, decided not to enter the employment stream in the type of fashion we saw in the 1980s.

Mr Phillips: I commend you for the work you did on the financial services. I think it's worth all of us analysing that. I agree that across Ontario, but particularly in Metro Toronto, the financial sector is a huge employer. We had the construction industry in recently, which was far less bullish about the non-residential construction sector than you are, I guess because of the slowdown in infrastructure spending and the cutbacks in capital. Why would they think one thing and you think another thing?

Mr Jestin: That's an important point. One thing may have been that they didn't have access to the latest Intention survey that came out about a week ago, which was very bullish on the non-residential side.

The other factor has to do with vacancy rates. Many people would look at vacancy rates, which are still at double-digit levels for commercial space, and say, "Gee, we have a lot of extra absorption to do before we'll click into gear." But it must be remembered that a lot of this space is not suitable for current applications. A good example of that is the big boxes that we're constructing in the retail environment right now. You cannot put a retail store of that size into the vacancies that exist in malls. You can extend that to may other examples.

We may be seeing a continuation of double-digit vacancy rates historically because we have this excess supply from the 1980s at a time when new competitors are coming to town, new industries are growing and their requirements are vastly different. We see the private sector — obviously that's where the growth is on the non-residential construction in this particular forecast — as doing quite well, and the Statistics Canada survey certainly validates that conclusion.

Mr Gilles Pouliot (Lake Nipigon): Thank you, gentlemen. I too wish to thank you not only for your time but for your expertise on this eve of the provincial budget.

Perhaps the most startling revelation, in my humble opinion, has been your prediction, your forecast of a full 3% growth in the United States, and may you be right. It would be the first time that in the second term of office, a year after the presidential election — and this is better forecasting than the Super Bowl, I can assure you. That track record has proven to be somewhat immaculate. You've reminded us that the recovery we're now enjoying has been export-driven. You also forecast that this will continue and that it will be joined with an internal recovery.

You mentioned consumer confidence, a perception. Someone should have told Eaton's that we are overretailed. The consumer debt, to my understanding — you would know better than I do — is at an all-time high because of the consumer-supreme attitude of the 1980s. My understanding is that saving is not doing all that well, that some of the jobs that have been created are jobettes as opposed to real, high-paying jobs, but that's about to change. You will have an inflation rate — what is it by your forecast for inflation?

Mr Jestin: I'll be staying under 2%, I think, in this environment, on consumer prices.

Mr Pouliot: So under 2%. Okay. It's 2.2% now, so it's going to be — okay. You've mentioned wage increases. You've also mentioned that the housing inventory is sort of drying up, and because of low interest rates and the momentum, that you will see a rise in the price of housing — you didn't tell us how significant it will be, but that there will be a rise in the price of housing. There will be some wage pressure and inflation will go down.

Mr Jestin: Inflation won't go down. Inflation will actually, on an average basis, be going up.

Mr Pouliot: We're at 2.2% now. How do you see the year's inflation ending: 2%, 1.8%?

Mr Jestin: Around 2%; maybe slightly less, yes.

Mr Pouliot: Around 2%. You're forecasting that you would pretty well stay the same.

Mr Jestin: On an average annual basis, yes.

Mr Pouliot: The way I'm trying to learn here, I see that your stars are all perfectly aligned, that things are going very, very well hopefully things will be absolutely great. But if you were a devil's advocate, what sector — let's say as opposed to being bottom-up, you'd be top-down in marketeering. You wouldn't go so much as intrinsic value, but you would just say sector and index; that would be your guiding line. Where could we go wrong? What could derail this forecast?

Mr Jestin: In your preamble you raised an awful lot of issues which, as you pointed out at the end, could go wrong. One of the ones you started out with was US GDP growth, which we are quite optimistic about for a variety of reasons, which I outlined earlier, in terms of solid consumer spending, disposable income growth and the like.

If you were to have a much slower US growth profile, inevitably that would hit back into our export growth as well. There is no chance that I see this year, absent a major financial market shock, that the US is going into a downturn. In fact, monetary policy there is very accommodative and income growth in the US is solid right now. Business investment, which is put in place after a very long planning period and therefore is reflected in intentions that are quite strong, looks as though it is going to be quite sustained this year. That's one Achilles' heel perhaps because, as I said, over half of what we're doing in the private sector nowadays is export-oriented.

Another factor, as you point out, is Canadian consumer confidence, which has been a fragile thing throughout the 1990s. We have seen in the conference board surveys and the like that it has been turning up. It has been likely to increase because job growth, we believe, is going to accelerate this year. We believe that wages are, or at least disposable income is, going to beat inflation this year — not by a lot.

We're not saying the stars are totally in line. There are still a lot of problems out there. Debt is high; the saving rate is low. But the fact that we are getting an improvement in employment, the fact that there is a bit more income in an average person's pocket, is enough to give a little more strength to consumer spending.

The other Achilles' heel is very clearly pointed out in what you were saying, however, and that is the consumer. If something goes wrong to turn the consumer off, inevitably you are going to end up with a much softer retail sales environment, although even then I don't think we will end up with the type of softness that we saw last year, where retail sales actually declined, and we're already beginning to see much more momentum here.

In terms of the housing market, we've got two months' data that suggest that the year started off very strongly whereas last year we got off to a very slow start.

1620

Mr Pouliot: So if I worked at Mount Sinai Hospital this afternoon, I might go out and buy a car tomorrow.

Ms Bassett: Thanks for your presentation. I wanted to pick up on your report. As parliamentary assistant to the Minister of Finance — we're looking for recommenda-

tions. In the Boston Group report, or I guess maybe in your report, you point out that in the GTA there are 320,000 jobs in the financial services industry. I guess the idea is that we as a society and we as government should be recognizing that. How can we cooperate with you to create those jobs that you just said help stimulate consumer confidence? What could we be doing more than we are doing?

Mr Jestin: I think the Boston Consulting Group report did a number of things. First of all it was designed to show that the financial service sector was very important to the GTA, and this would almost seem like a no-brainer. But if you read the strategic plans or the statements as to where the high-growth sectors are going to be in the economy that have been produced at the various levels of government in recent years, you very seldom see the words "financial services" anywhere in there.

Part of it was an educational one. Part of it also was to be really a warning against complacency. Boston went into the Bank of Nova Scotia, the CIBC and one of the life insurance companies and did a very detailed study of what jobs were there and which jobs were firmly planted towards the local economy and which ones were really oriented towards external environment and have the risk of moving, and they found roughly half the jobs that exist in the financial services sector are potentially mobile.

This, I think, should be cause for concern. It's also an opportunity, however: If they're mobile here, they're mobile at other places and we can track them in. I think as a first step, and the chairman of the bank, Peter Godsoe, is taking this step, is to join together and develop a group that will really discuss with government the role of financial services.

Ms Bassett: Have we done that?

Mr Jestin: We're in the process of doing it right now. I think it's important that in any documents that are putting out and in any policy shifts that are occurring we should be, in general, looking at what industries are effective, are they going to be negatively affected or not, and financial services, because of the strategic importance, I think should be fairly top on the list.

We're not asking for special handouts or favours, subsidies or tax reductions or anything like that. What would be quite useful is to have the industry considered when new policies are being brought in to make sure there's not an untoward negative impact on the industry, particularly because of the extraordinary increase in mobility that is occurring in financial services today.

Mr Gerry Martiniuk (Cambridge): I read in a recent issue of the Economist that Canada itself is not doing that well in productivity. If I recall, they rated Canada at 70 compared to a base of the United States at 100. We weren't as bad as Australia at 54, I think. However, I found that a matter for concern. Would you comment on that rating?

Mr Jestin: There's a deceased economist in the United States by the name of Albert Sommers, who used to be head of the conference board, who used to call productivity "the statistic from hell." The reason why he described it that way is that it's so extraordinarily difficult to measure, not so difficult to measure perhaps in the manufacturing sector but definitely in the service side when you're having so many changes occurring. In fact, I believe that because services are becoming increasingly dominant in the Canadian economy, the productivity measures are becoming increasingly tenuous.

But that said, our productivity performance certainly can be enhanced by improvements in machinery and equipment investment, investment in general and the growth of the high-tech-sector areas that are very productive and innovative.

While we may not have been doing that well during the 1980s relative to the 1970s, and the 1970s relative to the 1960s, I think the 1990s are a period of massive transition, which will inevitably unleash a very sizable improvement in productivity in the service sector, which again is the dominant component of the economy. Whether it shows up in Statistics Canada figures or not, I think it is very much there, and I think we all live that every day. We can see changes that exist that are increasing our efficiency or our effectiveness, whether it's a fax machine, the Internet or a variety of other vehicles that may not get in the national accounts. It may not improve the productivity measure on a national accounts basis, but we live it every day. I think Canada, by the way, is doing very well in that regard.

Mr Joseph Spina (Brampton North): How much time do we have left, Mr Chair?

The Chair: About three minutes.

Mr Spina: I have a couple of questions. Thank you for the presentation. It reinforces some of our thoughts and feelings about the economic situation. You definitely did not specifically tie in any of the current government's actions with regard to the positive economic conditions that you've indicated. Are there any there that have contributed to that, in your opinion?

Mr Jestin: Inevitably over the longer term, I think the deficit reduction initiatives, simply because they free up spending that would have been towards interest payments, are going to be very, very positive. There's an enormous debate as to the impact of tax cuts in the overall environment, as to whether they are offsetting some of the spending cuts that exist.

The problem with the tax cuts that are occurring right now is that they're being offset in many ways by actions that are being taken in other areas. I think many people in the province were a bit surprised — more than surprised — when they opened their pay packets in early January after realizing that a tax cut was in place and seeing that their income hadn't increased and in some cases had actually declined because of what happened in employment insurance and the CPP. Simply maintaining the current environment without having taxes going up or the overall take on the pay packet is positive.

On the other side of the coin, however, we're going through massive change, much of it very necessary, that is almost impossible for an economist to quantify with any precision as to what its impact is on the economy. Whether it's at the municipal level, whether it's health or education, it defies simple economic analysis.

On a longer-term basis, the best policy is to eliminate the deficit and bring back those interest payments that are sapping the government. If we did not have to make interest payments on outstanding debt, which would mean

that we did not borrow the money in the first place, we wouldn't have the problems we're having in downsizing in many of these sectors. We would have adequate funds. Longer term, staying the course on the deficit-reduction initiative is the best advice. As to the tactics that are being used, you could get 10 economists in this room and get 15 answers as to whether you're doing it right or wrong.

Mr Spina: You mentioned small business briefly, and that's my particular responsibility within economic development. You indicated that this is really the direction in which the job growth, job creation will come from. We just did some studies, some analyses and made some recommendations with respect to broadening accessibility to capital through competition, in other words, trying to get more cash from something beyond the Big Five, and some other recommendations. I don't know if you've seen the draft or not.

Mr Jestin: I haven't, unfortunately.

Mr Spina: Do you think broadening the scope of commercial lending would assist the growth, startup and expansion of small businesses and job creation?

Mr Jestin: The Bank of Nova Scotia, and our chairman specifically, is on record as welcoming increased competition throughout the financial service industry. In fact, we've been on record for some time on the foreign-banking initiative as to basically opening up the doors, making sure that you follow safe and prudent rules, because we think that is the best way of assuring that businesses, or consumers for that matter, get the necessary initiatives.

1630

We believe the current levels of interest rates are very attractive for business in general. We believe there are adequate vehicles for businesses in a wide variety of areas to meet the types of requirements. Certainly at the Bank of Nova Scotia we've been expanding small business lending very aggressively through the 1990s. All the banks have been doing that.

More competition? I don't think it's a problem. I think more competition is, in many ways, very beneficial.

The Chair: Thank you very much. We do appreciate the Bank of Nova Scotia for putting together a marvellous report and taking the time to come in and present to us today. We appreciate your active involvement.

Mr Jestin: It's a pleasure.

ONTARIO SEPARATE SCHOOL TRUSTEES' ASSOCIATION

The Chair: We now welcome the Ontario Separate School Trustees' Association: Mr Daly, president; Mr McCabe, deputy executive director: and Mr Sabo, associate director of education, York region. Welcome, gentlemen. We have half an hour to spend together. If you would like to make a presentation, we can fill any remaining time with questions.

Mr Patrick Daly: Thank you, Mr Chair and committee members. As you indicated, I'm joined today by our deputy executive director, Mr Earle McCabe; on my right John Sabo, the associate director of education for the York Region Roman Catholic Separate School Board; and joining us Monsignor Dennis Murphy, our director of Catholic education.

The Ontario Separate School Trustees' Association was founded in 1930 and represents the 53 Roman Catholic school boards in Ontario which collectively educate over 600,000 children from junior kindergarten to grade 12. As noted in our brief, the mission of all Catholic school boards and their schools is to create a faith community where religious instruction, religious practice, value formation and faith development are integral to every area of the curriculum. Catholic school boards provide this education according to the constitutionally determined rights of Roman Catholic parents.

We appreciate very much the opportunity to present our brief to this standing committee on finance and economic affairs. It is our intent to set out the funding issues that have an impact on the quality and equality of educational opportunity available to all elementary and secondary pupils in Ontario.

As noted in our executive summary, our brief is split into two areas: part A dealing with the transfer payments and part B relating to capital and transportation. I will focus my comments on part A and then invite Mr Sabo to speak on part B.

On page 6, you'll note that we indicate that our association is extremely pleased that the government will introduce legislation to reform the way we fund elementary and secondary education in Ontario and strongly supports the government promise of fairness in educational opportunity for all children everywhere in our province.

The ability of the education system to deliver programs and services mandated by the province to students in Ontario should not depend on the local property taxes available to that school board. The province must be responsible for the funding of education that is universally accessible. We believe the question of what tax mix should be used should be determined by the province, provided the constitutional rights of Catholic separate school boards are respected.

We look forward, hopefully in the near future, to receiving details of the new funding model to determine how provincial grants will be distributed to each school board. In our brief, we indicate our support for the discussion paper released by the ministry a number of months ago, Meeting Students' Needs. As you will recall, it set out eight principles of education funding as a basis for the new funding model. We endorse these principles and agree that as many dollars as possible must be devoted to the student in the classroom.

We are heartened by the minister's assertion that, "This model will provide funding so parents can be sure that no matter where they live in Ontario, their children have the same opportunity to excel." The minister went on to say: "There's no such thing as a second-class student in Ontario. The new funding model will recognize that different communities face different challenges to providing high-quality education." Again we want to unequivocally state our support for that statement and urge the government to proceed in that direction.

The rights of Catholic boards, as set out in the Scott act, are protected in the Constitution Act of 1867. These

rights include the right to levy taxes on separate school ratepayers. We are pleased that these constitutional rights are specifically recognized in Bill 104 and expect and believe that in the upcoming legislation on the funding model these rights will once again be respected. In this regard, we recommend that the government be commended for its commitment to implement a new fair-funding model that achieves equity in educational opportunity for all children in Ontario; further, that the constitutional rights of Catholic separate school boards continue to be recognized in any funding changes.

On page 7 of our brief, we indicate our strong belief that the funding of education must continue to be a high priority for this and future governments. We believe this requires a continued central role for the province in the establishment of standards for health and social support programs for children at risk and funding to implement these standards across Ontario.

In this section of the brief, we indicate our real concern for the impact of the changes as a result of Bill 104 on the staff who work within school boards across Ontario. It is our responsibility to treat justly and compassionately those employees who will find themselves vulnerable in any restructuring. We believe there must be adequate funding so that the redeployment of staff and any necessary reductions can be achieved in accordance with social justice principles.

We go on to indicate that the new allocation model must be based on provincial standards that address the unique funding costs of each board. We outline that issue at length and invite you to read that at your leisure.

On page 8, we discuss an important issue, the need for recognition by the province of realistic costs. You will recall in August that a report was released, a study on costs in education, and the report indicated that Ontario school boards were spending $6,917 per pupil in 1995-96, which was $319 per pupil above the weighted average of the other nine provinces. Unfortunately, the report didn't highlight the fact that school boards do not spend equally and therefore should not be treated as if they all do.

The 53 Catholic school boards we represent are spending less than the average in all provinces save and except for Prince Edward Island. If Catholic boards spent the same amount on a per pupil basis as public boards, the cost would be $1 billion a year greater than what Catholic boards are currently spending.

We, as Catholic school trustees and the staff who work within our system, are proud of our long tradition of the efficient use of taxpayer dollars. We recognize that there is increasing public pressure for less bureaucracy and less duplication of services. Our boards have a long record of lean administrations which can be demonstrated by a recent survey of administrative costs of all boards in Ontario.

1640

We recommend in this section that the government maintain education as a priority in funding; second, that the transfer payments recognize the realistic costs of delivering programs and support services to provide equal opportunity for all students across Ontario; and third, that the province consult with school boards in the development and refinement of an allocation framework model.

On page 10, although briefly, we speak to a really important issue in the development of the new funding model, and that is the assurance that the new funding model will allow local autonomy, decision-making and flexibility. As you know, there is great diversity in communities across Ontario. Local autonomy is required to respond to the unique needs and priorities of these different communities and, according to management theory, local decisions are more likely to be realistic. A large portion of the provincial grant to each school board should be unconditional to allow each board to meet the specific concerns and needs of each community. In particular, we want to indicate that it must be flexible to ensure that the distinct nature and mission of the Catholic school system across Ontario is promoted.

We recommend, therefore, that there be adequate unconditional funding provided in the new funding model to enable school boards, acting as local and autonomous governments, to accommodate local needs and priorities.

The final issue I'd like to speak to is one that is of significant concern to Catholic school boards across Ontario, the continued funding of junior kindergarten. The educational and social value of junior kindergarten is unquestionable. It is documented in research. The opportunities to develop a strong foundation in socialization, thinking, problem-solving, language and literacy development and physical co-ordination emphasized in junior kindergarten are especially critical for those children who find themselves in situations that limit physical, social and perhaps intellectual growth.

Junior kindergarten is an integral part of elementary and secondary education and therefore should be funded as part of the mandatory program in the new funding model. As well, accommodation for junior kindergarten should be recognized in the funding for new pupil places.

We recommend, therefore, that junior kindergarten be recognized as an essential component of the learning program and, further, that junior kindergarten operating costs and accommodation be recognized for funding in the same manner as other regular programs and services.

Mr John Sabo: The two areas I'd like to speak on are with regard to transportation and capital, which are often overlooked and not considered.

In 1997, provincial transportation grants to school boards will be further reduced by an estimated $39 million in addition to the reductions of $19 million made in 1996. OSSTA is concerned that the reduction in funding for transportation will have a disproportionate, negative impact on separate school boards since most separate school boards are larger in geography than their coterminous neighbours, with pupils dispersed over a wider area.

OSSTA continues to support efforts to identify and implement more cost-effective ways of providing pupil transportation. It is important to recognize three factors in this quest for savings. First, transportation of pupils by school boards is not an end in itself but rather a means to provide educational programs. School boards use transportation as a way of achieving savings across the system. To illustrate: achieving savings by closing small schools with costly pupil-teacher ratios and busing students to nearby schools where space is available. A

third factor is that for many school boards transportation is an alternative to address their lack of accommodation caused by lack of capital funding for new school construction.

OSSTA supports a thorough examination, on a case-by-case basis, to determine the most cost-effective ways of providing transportation for students. It is essential that school boards control how and when transportation will be provided in order to ensure that education purposes are served for all students. OSSTA therefore recommends that efforts continue to identify and implement efficient and effective transportation models on a case-by-case basis for transportation of pupils in Ontario.

With regard to capital, capital is an essential component of education funding and, I'll stress, is often ignored.

On January 9, 1997, the Minister of Education and Training announced the government will invest $650 million in school construction over the next two years. We are pleased that the government is honouring its funding commitments for projects affected by the moratorium on capital announced with the 1996 general legislative grants. It is important to note, however, that the provincial program funds only a portion of approved costs. School boards are expected to raise over $280 million of that figure from their local tax base. Questions of course remain as to how school boards are to raise funds for their local share once the residential property tax is no longer available for educational purposes.

Despite the $650-million allocation, the need for capital investment remains high. Many school boards are faced with increased demands for instructional spaces because of rapidly increasing enrolments. Many reports have document this, most recently a report of the Ontario Association of School Business Officials. Many school yards are currently jammed with portables; often 30% to 40% of pupils reside in portables. In other cases, students are being bused some distance, resulting in increased transportation costs. Other boards face the difficulty of aged facilities which require updating.

The funding for capital must be considered an essential component of the new funding model for elementary and secondary education. No distinction, we believe, can be drawn between the delivery of education programs and services to pupils and the physical facilities in which they are delivered. Therefore, OSSTA recommends that the government continue to recognize capital as an essential component of the new funding model for elementary and secondary education.

Mr Daly: Briefly, in conclusion, our association, representing 53 school boards across Ontario, recognizes the challenges we all face in providing an exemplary education in these difficult times. Catholic separate school boards are willing to work together with all parties to provide education of the highest quality and in the most efficient way possible.

We thank you for giving us this opportunity and again urge the provincial government to implement the proposals in our submission.

The Vice-Chair (Mr Tim Hudak): Very good. I thank you. That leaves about three minutes per party for questions, beginning with Mr Pouliot.

Mr Pouliot: Gentlemen, I appreciate your presentation and your candour. I say candour by virtue of the notice that you wish to thank the government for what will be a revised funding opportunity that could perhaps make you comparable to the public school system. I hope you do believe that in the reforms that are being proposed this was the motivator. It was exactly for that reason that during the mega-week proposal the government has chosen to take over what is now the education portion at the residential level. It was only to bring you closer to the public schools. That's why they've done all of us and it takes a great deal of courage.

You mentioned junior kindergarten. You've also mentioned busing. You have mentioned portables that are beginning to be more like permanent portables. Teacher-pupil ratio, I'm sure if you would have had more time, would have been of some concern. Are you familiar with words such as "charter" and "voucher"? Does that ring a bell?

Mr Daly: We're aware of what they are, yes.

Mr Pouliot: You're quite aware of it. You see, I represent our party and I'm not here to criticize. I'm the first one to say the government is doing great when they're doing great.

Mr Rollins: When are you going to start?

Mr Pouliot: You see, I was expecting not too long ago, and I need your help, anywhere from $700 million to $1 billion, because I can see the books like everyone else who is exposed to that. It's not all that complex. They have to find quite a bit of money, because maybe you didn't notice but we're going through a tax break kind of thing. Then they've got to balance the budget at the same time. It's quite a mix, a lot of pressure. They're having a lot of pressure, a rough time because they said all kinds of things before the election and they got enough X's so now they're the government, you see.

1650

Who's going to negotiate with the school teachers when they come calling for an increase because they haven't had an increase for some time? Do you feel that they're going to get an increase?

Mr Daly: Just to respond to the first part of your question, we'll leave it to others to speculate on the motivation as to why certain things are happening. We want to express our support for this or any government that achieves equality in educational opportunity for all children in Ontario. Our parents and our children have been waiting for over 150 years for that and we think it's long overdue, so we will support any government that moves in that direction.

To answer your question, we strongly believe that bargaining should remain at the local level between the board and the teachers' federation and are hopeful that the funding model will allow for that and would strongly support continuation of that. One of our real strong commitments is to the continued existence of the Ontario English Catholic Teachers' Association. We consider them to be partners with us in the education of our children and look forward to working with them.

Mr Pouliot: Thank you for your emphasis on social justice as well.

Mr Wettlaufer: Mr Daly, thank you for your presentation; it's very positive. I'm a separate school ratepayer.

Do you believe that separate school education is any less quality than public school education?

Mr Daly: I would answer that in a couple of ways. I don't believe it's of less quality, but I think because of the inequities in funding, clearly the children in our schools do not have access to resources in the coterminous public systems, and I would say the same is true of assessment-poor public boards not having the same resources as assessment-rich.

Mr Wettlaufer: I wonder if could follow that up. I don't think that it's any less quality of education. I think what the separate schools have done is remarkable considering that they have had less funding over the years, and I think all that does is demonstrate what our government has been saying, that there is an inequity in funding and that there are efficiencies to be found and that we should all be working towards finding those efficiencies, just like the separate schools have done so.

Mr Spina: Thank you, gentlemen and Monsignor, for joining us today. Somebody whom I think you all know, Mr Meany, was in my office just last week and we had this very same conversation, as a matter of fact. No, he didn't bring me this report but there was a lot in it that I recognized and recalled.

Mr Pouliot brought up a point earlier and I just wanted to follow that up a little bit. It was a concern that some people have expressed, I would venture to say, mostly from the public school side about the "danger" of the voucher system, the "danger" of the charter school system.

It was my opinion that this kind of funding structure, for at least the basic services — because of course there has to be a formula for special services, ESL and some of the other programs for challenged children. But I would think that this kind of funding structure in a fundamental way would be very much in favour of the separate boards. Is that a fair expectation or opinion on my part?

Mr Daly: In terms of the funding model and relating it to the voucher system, I'm not sure that would be a fair assumption. Clearly the directions as outlined in the Meeting Students' Needs document would support the children in our schools as well as in assessment-poor public boards.

Just on that note, I might not get another opportunity but I would like to go on the record as indicating that our association for many years, together with the Ontario Conference of Catholic Bishops, has supported the funding of other faith groups in Ontario as a matter of social justice for the children of those parents, and we would like to see that occur as well.

Mr Cordiano: Thank you, gentlemen, for your presentation. I just want to go back to a couple of points that were made, the point with respect to separate schools and the facilities, where I think we draw the line in terms of where separate schools do not have the same — they are not on the same footing, there's no question about that. While we can discuss equalized funding, which is a good thing, on the one hand, on the other hand the government is reducing its funding of education overall. So you may get it equalized, but you're going to get a lot less. It might be more equal, but a lot less overall, and I think these cutbacks are having a devastating impact in our schools.

The overcrowding that is seen throughout the separate school system — my children attend separate schools and it's not evidenced in public schools, to be clear. In some areas where there are high-growth situations, obviously that is a real pressure on those systems.

The capital funding that's been announced, it remains to be seen when that will be implemented and what the rules will be around that, but I'm sure that's being worked out. That's been long overdue.

I think your point here in your brief with respect to autonomy is rather interesting because you still call for adequate unconditional funding to enable school boards to act locally and more autonomously. That isn't going to be the case from here on in. What are your comments with respect to the government's initiatives in this regard with the Fewer School Boards Act and taking over the funding of education throughout the province strictly as a provincial responsibility?

Mr Daly: We've indicated our support for a move in that direction provided that the funding model respects the constitutional rights of Roman Catholic school boards. In terms of local autonomy, what we're indicating is that the funding model should be developed in such a way that a significant amount of it was unconditional for the decision-making at the local level by locally elected trustees. We think that is critically important and one thing that our association will insist on.

Mr Cordiano: Where is the indication that that's happening with respect to the initiatives undertaken by the Minister of Education recently? Have you had some assurance that is the direction they are moving in or that there is anything to indicate that would be a provision of his policies? I haven't seen it, so I'm wondering what your insights are that aren't the same as ours.

Mr Daly: I could ask Mr Sabo to comment more specifically maybe on the funding model, but we have received assurances, although no one has seen the new funding model, that that flexibility will be provided in that new funding model.

Mr Sabo: We haven't seen the details of the discussions we've had. Going back to the government on Meeting Students' Needs, the concept that's being advanced is dollars per pupil being equal and equalized and allowing it more on a block grant basis. We have been lobbying, and so have our public board counterparts, to have that amount allocated to individual school boards and let them prioritized what they would like to do with it.

Mr Cordiano: But that's not what the government's agenda is.

The Vice-Chair: That's all the time we have. Gentlemen and Monsignor, thank you very much for your presentation. Have a good evening.

1700

ONTARIO CONFEDERATION OF UNIVERSITY FACULTY ASSOCIATIONS

The Vice-Chair: The next group has just arrived, the Ontario Confederation of University Faculty Associations. Folks, welcome to the standing committee on finance and economic affairs. Thank you.

Mr Michael Piva: I am Michael Piva. I'm the president of the Ontario Confederation of University Faculty Associations. I'm accompanied by Donna Gray and Mark Rosenfeld, who are both professional staff officers with the confederation.

OCUFA would like to thank the standing committee of finance and economic affairs for the opportunity provided for presenting our views, which represent the views of 11,000 university professors and academic librarians across Ontario.

For many years OCUFA has attempted to document to this committee what we see as the corrosive effects of over two decades of inadequate funding for our universities. Despite these efforts, the university system continues to bear the brunt of successive governments' decisions to disinvest in higher education and increasingly shift financial responsibilities to students and others in the private sector.

OCUFA, however, would like to view the upcoming provincial budget with a renewed sense of hope and optimism for the future of our universities. The reason for that optimism is two independent reports that have recently been released. The first of these came in December 1996 and it is the Advisory Panel on Future Directions for Postsecondary Education, which added its voice to the many others decrying the abysmal state of underfunding in the post-secondary system.

This panel was established by the Minister of Education and Training in July 1996 to make recommendations on the appropriate sharing of costs among students, the private sector and the government; to identify ways to promote and support cooperation between colleges and universities and the secondary school system; and to provide advice on meeting the expected levels of demand for the post-secondary sector.

The second reason for our optimism follows from Finance Minister Ernie Eves's statement in November 1996 which indicated that the government expects to exceed its deficit target of $8.2 billion this year, as economic growth is rapidly outpacing the government's original projections.

Private sector forecasts for the next two years paint a picture of an Ontario economy characterized by continued economic growth in output and jobs, a declining unemployment rate and very low inflation. As the finance minister states in his Economic Outlook and Fiscal Review, the Ontario economy has turned the corner. We believe that the time has come for the government to reinvest in those institutions which contribute to Ontario's long-term economic growth and we believe that foremost among those institutions are Ontario's universities.

For many years, Ontario has been falling behind the other Canadian provinces in operating grants for its universities. Ontario now ranks last among Canadian provinces in operating grants, no matter how measured.

The cut to operating grants last year, the current academic year, was five times higher than the average in the other nine provinces. This has greatly accelerated the funding gap between Ontario and the rest of Canada.

Ontario universities are also becoming increasingly uncompetitive when compared with American universities. In the two-year period from 1993-94 through 1994-95, while Ontario grants were cut by 2%, state appropriations in the United States increased by 8%. Ontario then cut 16% from operating grants in 1996-97. Perhaps most ironically, the more the Ontario economy has invested in high technology and knowledged-based industries requiring post-secondary graduates, the fewer resources the government Ontario government has been prepared to spend on the necessary education.

Between 1980 and 1996, the proportion of Ontario's manufacturing value added provided by high-tech products and information-based technologies increased from 9.6% to 18.1%. Since 1985, 95% of all net new jobs have gone to those with post-secondary degrees or certificates. Despite this, between 1980 and 1996, the universities' share of total provincial government spending decreased from 5.5% to 3.4%, while enrolment in our institutions increased by 34%. Even as recently as the current academic year, government operating grants to universities were cut 16%, while the provincial government spending overall declined by approximately 5%.

The Minister of Finance clearly understands the connection between higher education and economic growth. In his November 1996 economic statement, the Minister states: "Education provides a competitive advantage by boosting productivity and innovative capacity. Higher education is particularly important in today's knowledge-based economy."

We believe that now is the time for the government to act and to invest in economic growth by reinvesting in our institutions.

On the basis of the evidence presented in 185 briefs, the Advisory Panel on Future Directions for Postsecondary Education concluded that "the high quality of the post-secondary system cannot be sustained in the current financial environment.... Ontario must accept the principle that the total resources available to our colleges and universities must be similar to the total resources available in the colleges and universities in other jurisdictions in North America."

The advisory panel calls upon the provincial government to renew its financial commitment to post-secondary education and, again, I'm quoting recommendation 2 of the advisory panel:

"We recommend that the provincial government support of universities and colleges in Ontario be comparable to the average through other Canadian provinces and be reasonably in line with government support of major public university and college systems in the United States. This goal should be achieved by arresting reductions in government grants now and by building towards this goal over several years in ways that strengthen excellence and accessibility."

OCUFA recognizes that in freezing funding to Ontario universities for 1997-1998, the government has taken the first step towards fulfilling this recommendation. We would remind the government, however, that the increase in consumer price index for Ontario for the past academic year averaged 2%, thus further eroding the funding base of Ontario universities. At an absolute minimum, a 2% increase for the 1997-1998 is required merely to keep our universities at the same real dollar funding level as 1996-1997.

The freeze in the current year is clearly insufficient if we are to arrest the further damage created by a 16% cut in funding in 1996-1997. To accommodate those, payroll costs have been reduced by layoffs, by leaving vacant positions unfilled, by additional losses to early retirements, by days without pay and by salary cuts. These have all be required to reduce our costs. Maintenance costs to aging university infrastructure has again been deferred. These clearly are stopgap measures within our institutions and they cannot provide long-term solutions to the universities' dire financial circumstances.

OCUFA recommends that for 1997-1998, the Ontario government restore university funding to the 1996-1996 level of 1.843 billion. This we believe is only a first step in achieving the advisory panel's recommendation. In future years, additional funding would be required if we were ever to approach the national average.

The advisory panel also recognized that investment in the research function of Ontario's universities is fundamental to keeping Ontario competitive in a global economy. We in Canada spend far less per capita on research and development than almost every European country, and we spend as half as much as the US and Japan. Moreover, Canada relies upon its universities for fully one quarter of its total research.

The proportion of grants from the federal research councils received by Ontario universities meanwhile has declined, from 42% of the national total just over a decade ago to 36% now. This is less than Ontario's share on a per capita basis.

Certainly, a part of our research difficulty stems from the policies of the three federal granting councils to fund only the direct costs of peer-adjudicated research. In 1986 the minister established a research overheads and infrastructure funding envelope in order to cover some of the indirect costs of sponsored research. At the time, the Ontario Council on University Affairs, OCUA, acknowledged that $25 million put into that fund was only partial recognition of the shortfall in funding in research overheads. Since then, the amount in the envelope has declined, both in real dollars and relative to Ontario's share of federal research grants.

OCUFA supports the panel's recommendation to increase the value of the overhead and infrastructure envelope to approximately $100 million annually. The advisory panel pointed out that the current fund of $23 million does not represent full cost recovery and is contributing to the deteriorating infrastructure within our institutions. It is also making it more difficult to attract and retain top researchers and scholars.

The advisory panel concludes that government funding of university research, particularly of the indirect costs of research such as libraries, equipments and facilities, has clearly been inadequate to now.

The panel also recognizes that in order to remain competitive we must offer competitive compensation packages and strong research support to our scholars. The panel acknowledged in its reports, "Problems are already beginning to emerge with respect to active scholars leaving Ontario universities and the difficulty in attracting first-rate junior and senior scholars to Ontario universities." OCUFA agrees with the panel's assessment that the cause of such difficulties lay in the loss of competitiveness associated with "working conditions (heavy teaching and administrative loads), inadequate support for research, and to a lesser extent, uncompetitive salaries."

1710

Between 1990-1991 and 1994-1995, the number of full-time faculty at Ontario universities declined by 890. Since then we have lost additional faculty members because of the early retirement packages that were put in place after last year's funding cuts. Clearly, the need for faculty renewal in Ontario is pressing.

The endowment funds approach to faculty renewal as recommended by the advisory panel represents, in our view, at best a panacea to what is a fundamental problem. Universities need sufficient base operating grants if they are to hire the faculty necessary to meet the demand for post-secondary education.

On the issue of tuition, OCUFA always starts from the principle that post-secondary education is a right of citizenship and must remain available to all qualified students. Our fear is that riding tuition fees will become a disincentive to attend as rising costs and compounding debts lead students to turn away from our institutions.

All of the evidence, including the government's recent discussion paper, makes clear the rising demographic demand for post-secondary education. The government instructed the advisory panel to look at ways of accommodating the expected increase in demand of up to 10% over the next decade. Moreover, this demographic demand is compounded by the economic requirement for increasing numbers of graduates.

In October, OCUFA pointed out to the advisory panel that there was already some evidence to suggest that there was a slight decline in enrolments in post-secondary institutions in this province. Now, four months later, statistics on 1997-1998 applications show a 2.5% decline. In some northern universities the decline in applications is reported to be as high as 20%. Escalating tuition is poor public policy in our view when it constructs barriers to access at a time when demand for access and demand for graduates has never been higher. Institutional budgets meanwhile become increasingly sensitive to enrolment and therefore become less stable as increasing tuition becomes a larger and larger portion of total institutional revenue.

The advisory panel recommended the implementation of a corridor funding system for the community colleges precisely in order to free them from the "unproductive competition for students" which results from an enrolment-driven formula. The community colleges effectively argued before the panel that their enrolment-driven formula "skews institutional behaviour towards quantity over quality."

OCUFA believes that the very problems the panel suggests be avoided in the community colleges will resurface in the university system as tuition rises, accessibility declines and funding becomes increasingly enrolment-sensitive. While tuition is likely to remain a significant part of the funding environment, tuition revenue cannot provide system-wide stability inherent in adequate basic operating grants distributed through the corridor funding model.

There is no doubt that implementing the advisory panel's recommendations will require the government to substantially increase its investment in the province's universities. Based upon Ontario's economic outlook for the short and medium term, we are confident that the government can begin immediately to implement the panel's recommendations while continuing its program for deficit reduction.

The Institute for Policy Analysis at the University of Toronto is projecting real GDP growth for the Canadian economy of approximately 4% in each of 1996 and 1997. Ontario is expected to lead the country in growth in 1996, with annual growth perhaps a full percentage point higher than in Canada as a whole. Employment growth is expected to be robust over the next two years, with inflation remaining below 2%. CIBC Wood Gundy economists meanwhile estimate that the fiscal policies currently being pursued by the two levels of government have lowered the real rate of growth in Canada by 1.6% in 1995, by 1.4% in 1996 and will lower it again by 1% in 1997.

Now that the fundamentals in the Ontario economy are strong, and projected to remain strong at least through 1999, this committee should recommend that the provincial government end the drag on growth created by the current fiscal policy of spending and tax cuts, and by selectively increasing spending in those areas of the economy which contribute directly to economic growth. It's crucial that the upcoming provincial budget recognize that building for a strong economy in the future means reinvesting in the province's universities now.

The government's Advisory Panel on Future Directions for Postsecondary Education has concluded that government financial support for the university sector is seriously inadequate and puts our universities' competitive position in North America dangerously at risk. OCUFA calls on the government to rectify this situation in the 1997-98 budget by implementing two of its recommendations: first, that the Ontario government restore university funding to the 1995-96 level of $1.843 billion as a first step in implementing the advisory panel's recommendation of raising operating grants to the national average; and second, that the Ontario government implement its advisory panel's recommendation to increase the size of the research overhead and infrastructure envelope from its current level of $23 million to $100 million annually. These two measures will allow all universities to hire the faculty they need to meet the growing demand for post-secondary education and to provide for all faculty competitive working conditions and research support.

As the provincial government develops public policy to position Ontario in the global knowledge economy, reinvestment in Ontario's universities must be a cornerstone of its strategy. Education should not be seen as a cost to the government. Public funding in post-secondary education is an investment in the development of this province's human capital, which pays substantial dividends to both the community as a whole and to the government. This government has the means, we believe, to make the investment. All that is uncertain at this point is whether it has the will. I thank you for your time.

Mr Wettlaufer: There's so much I want to ask and so little time to ask it. I'll start with the CPI. You say that it's averaged 2% for the past academic year and that it eroded the funding base of Ontario universities. For years and years and years, almost a whole generation, I've heard the argument that everybody should have wages increased to equate with the CPI, and I think that is one of the concerns that has got us into the problem we're in.

The CPI is a faulty measuring stick. As you're aware, the CPI is made up of the cost of all goods and services, and not everyone who purchases goods or services is affected equally. I suggest that you might only be affected by 60% or 70% of the components which make up the CPI, and it's quite possible that the universities could get by with 1.5% or 1% or perhaps a reduction. I would suggest that's something we should be looking at. Instead of comparing to the CPI, let's look at what our actual costs are.

Another thing that I really want to address quickly is the R&D expenditure. Historically, universities in Canada have considered themselves above obtaining funding from private industry, and I think it's only recently that they have started to market themselves to industry to obtain funding. I know of many, many companies that would love to give money to universities to assist them in their R&D work. Perhaps this could be addressed as well. I'd better quit here, because my colleagues won't have a chance.

Mr Piva: I would agree that the CPI is an imperfect measure for university costs, but university costs have clearly been increasing because of inflation. Perhaps you're right, perhaps I shouldn't use CPI and we should have better costing. I don't have access to a precise number, so I have used CPI as a surrogate, but I would agree with you that it is not precise. It is, however, I think representative of the problem of declining real dollars.

On the issue of research and development, I would disagree with your notion that universities have never been interested in these things. Perhaps we haven't been interested enough.

Mr Wettlaufer: Not nearly.

1720

Mr Piva: But I think universities have gone after private sector research dollars. I think they have been doing a good job over the last little while in improving their record there. I think they need to improve their record in that area. But the reality of the university funding situation is that even if we were to double the contributions from the private sector through research funding, it would make only a small impact on the basic financial situation of the universities, because those contributions represent only about 4% now of the total university revenues. I would agree that we must do more in this area, but I caution that this is a real solution to the underlying underfunding issue because again it represents, even if we were to double, 8% of revenues.

Mr Spina: Just quickly, thank you for a well-researched document, obviously part of the advisory panel stuff. I'm not sounding too intelligent. I apologize; it's a late day. The only question I wanted to ask you was —

Mr Cordiano: That's the final word from the Tory caucus, "We're not sounding too intelligent."

Mr Spina: Thanks, Joe. You want to burn that up?

If we were trying to find more dollars to be able to allocate to the universities on a per capita basis, would you say that we have more universities on a per capita basis in Ontario, which puts a capital cost burden on the post-secondary system in this province higher than any other province in Canada?

Mr Piva: I'd have to agree to a degree, but I don't think it's really germane to what I see as the underfunding issue. Certainly, given the nature and the size and the geographic spread of our population, the need for northern universities, for example, we do have a relatively large number on a per capita basis. I think, however, if you combine the basic operating grants, the infrastructure envelope grants and the capital expenditure grants, we still fall well behind the other Canadian provinces in terms of financing.

Yes, to some degree our costs might be a little higher because of the geographic spread of our population within the province, but that's just the nature of the Ontario reality we have to face. There may be some additional costs. It doesn't, however, obviate the more underlying problem of our expenditures on a per capita basis, even including capital expenditures, being low, significantly low, relative to other Canadian provinces and also, and I think more importantly, declining relative to our competing jurisdictions in the United States.

Mr Cordiano: I want to thank you for this brief, because I think it clearly points to the erosion of our system of post-secondary education in this province, and it's a stinging indictment of this government. This government is now approaching the halfway mark of its administration, and I think it's quite clear from your brief that we have serious problems in the system. You talk about the loss of faculty. You talk about the lack of adequate funding for research.

With respect to tuition fee increases, I'm glad to see that you've pointed out that the substitute is not income-contingent loans and that those would solve all of the problems and are sort of panacea, because we happen to believe in our caucus that deregulating tuition fees and allowing universities to increase tuition fees at will is going to be a serious problem for students right across this province from different income groups. It's not sufficient to say we'll have income-contingent loans to repay these debts over a period of time when students and young people are saying, "There are very few jobs out there, and should I graduate with a huge debt load, it becomes a real disincentive." I don't think that's the answer to our problems.

The fact of the matter is we have a serious shortage of funding, as you've rightly pointed out in your brief, and I think it's quite interesting, as you point out as well, that government operating grants to universities were cut by 16% while provincial government spending overall declined by approximately 5%, rather interesting. This makes the point that it's the system that's been targeted and post-secondary education has really felt the brunt of these cuts. That's more by way of comment and just to agree with your brief.

I'd like to ask you what, if any, response you have received from the minister in terms of your brief and your concerns. Has there been any hint or suggestion that he would like to move by increasing funding for research, that there are any initiatives being taken to mitigate against the high cost of tuition fee increases?

Mr Piva: We didn't present our brief to the minister, but I did meet with the minister last week and we discussed issues that arose out of the Advisory Panel on Future Directions for Postsecondary Education. My view was that the minister did recognize that there was a problem. In the discussion — we had a very short discussion last week; I hope to be following up with the Ministry of Education and Training — he didn't signal that the ministry was prepared to act immediately. He did not commit itself. However, I think the meeting was productive to the degree that we were able to point out our concerns to the minister and he, to some degree at any rate, recognized the problems that were addressed by the advisory panel. Again, the response was non-committal at the time.

The ministry is looking at issues. I'm very hopeful that we will see some progress in the next couple of years and I would hope that this committee's recommendations on the budget will reinforce what I see as some hopeful signs. I think it's important that this committee reinforce that.

Mr Pouliot: Welcome, and I appreciate the confidence you have in the committee. It will make recommendations, but you know only too well that at the end of the day the majority shall have its way. It's not supposed to be this way at the committee level, but this is at the end of the day where the direction is, that the majority will recommend; the Progressive Conservative Party of Ontario will come up with a budget.

I was somewhat surprised. Ontario is now last in terms of transfer payments. Regardless of the methodology, by whatever standard, we're last in terms of transfer payments?

Mr Piva: Currently, yes.

Mr Pouliot: You have indicated also there's a decrease in enrolment. Is a much higher tuition fee the catalyst or is it many things put together?

Mr Piva: It's difficult to judge now. I may have misspoken myself. We have not seen evidence of a decrease in enrolments. What we have seen is a 2.5% decrease in the number of applications to the system. There has been a slight decline in numbers in a few institutions this year, and the indication on the basis of applications is that there will be a decline next year.

I believe it's related to the disincentive of costs that we are seeing, with a 58% increase in tuition fees over the last little while. We have been worried about this and we pointed it out to the advisory panel last October, but at that date, we had only limited evidence. We now have more.

Clearly, if you look at the government's discussion paper that went forward to the advisory panel, they asked the advisory panel to plan for a 10% increase in demand, and every indication is that that's what we should have expected. I believe the only reason we're seeing a decline in applications is the disincentive of costs. I believe it is a serious problem.

Mr Pouliot: If you have a decline in applications, its natural evolution would lead to a decline in enrolment.

When I listened to your presentation, I began to wonder — I've heard things talked about such as private universities etc. At one time, if you weren't very gifted — if you were, you could get a bursary — you had to be well-off to go to university. You had to come from an upper-middle-class family in most cases. It's so vital to the future of the nation and the world community that we educate. That's the only way out. That's the best we have. When you mentioned that you would like to see the budget — $1.43 billion, did you say? — match the 1996 level, how much is that? What would be the increase necessary? Would it be $20 million, would it be $150 million?

Mr Piva: The current level is $1.548 billion. We're asking that it be increased back to 1995-96, and at that point it was $1.8 billion. We would like to see it restored. I would remind you that $1.8 billion is still below the national average, which was what the advisory panel recommended.

The Vice-Chair: Thank you, Mr Piva, Ms Gray, and Mr Rosenfeld in the back, for your presentation this evening.

1730

ONTARIO COALITION FOR BETTER CHILD CARE

The Vice-Chair: Our next deputation is the Ontario Coalition for Better Child Care, Kerry McQuaig. Good afternoon, and welcome to the finance committee. You'll have 30 minutes for your presentation.

Ms Kerry McQuaig: My name is Kerry McQuaig. I'm the executive director for the Ontario Coalition for Better Child Care. You'll be receiving the brief our organization prepared. In the interests of time, I'm just going to highlight a few points from it.

One is that since taking office, this government has consistently cut funding to child care. The cuts are listed on page 2. The new money for child care announced in last spring's budget has not materialized and the Premier has now admitted that provincial spending on child care will be less in 1996-97 than in previous years. This is unprecedented. No previous government has ever cut funding for child care. Recognizing the changing nature of the workforce, governments have consistently expanded funding for child care.

The government appears intent in pursuing this line in two areas, both by continuing to cut funding for child care and through policy changes which will have a big impact on both the quality and accessibility of child care. We want to note that to date the cuts have had a major impact in that 9,000 of Ontario's 70,000 child care subsidies have been eliminated in the last 18 months; there are waiting list freezes for child care across the province; waiting lists for child care continue to grow; and child care programs have closed.

We are looking at two major announcements made in the last couple of weeks. One is that there will be a new funding arrangement for child care: Municipalities will be expected to increase their current contribution for child care from the current $63-million contribution to $330 million, an increase of over 400%. The other change we saw is that municipalities were instructed to make child care a mandatory service. Mandating child care is a positive step; however, as the Toronto Star noted in its lead editorial this week, making child care mandatory without the money to pay for it or setting out standards is a recipe for disaster.

Coupled with this we see other policy changes. In child care, sometimes policy changes can have more of an impact than funding changes. We see that municipalities are being instructed that they must maintain their current level of child care services but they do not necessarily have to maintain them in the regulated sector. This is probably the worst policy change we have ever witnessed and it will result in the collapse of regulated child care.

What we have seen is a complete change in the way child care has been funded since 1990. In 1990 the federal government contributed 50% for the cost of child care, the province 30% and the municipality 20%. We now see that this is completely flipped around, with the municipalities being made the largest contributor towards child care, being expected to contribute 50% of the cost while the province and the federal government share the other 50%.

When we take these budget changes and policy changes together, it means it will be difficult to maintain the level of child care that now exists and it also means there can be no growth in child care.

I want to highlight some things, particularly for the government side. I've noted from some of your minister's statements that there is a misrepresentation of what child care is. It is relatively, on the provincial agenda, a small service, but the reason it's a service that doesn't go away and a service you always hear about is because parents need child care.

There has been a statement that only 10% of children are cared for in regulated care and the rest are cared for in the informal sector. That is a fallacy which probably makes you wonder, if it's such a small service caring for so few children, why it is that you hear about it so often. The reason you hear about it so often is because it's inaccurate that only 10% of children are in regulated care. That figure comes from a national survey which looked at children between the ages of zero and 13, and it's quite true that there's not a lot of 13-year-olds in child care.

When we look at the main child care years of between two and six, 35% of children are in child care. When parents look for alternative care — the majority of them care for their own children, 44% of parents in shifts; you know, mom works days, dad works nights. That's how they provide child care. In fact, only 23% of children are cared for in the informal sector where money changes hands. Nevertheless, this seems to be the area to which the government seems to want to redirect funding, the informal sector.

From the government side, when we monitor your announcement about what you would like your agenda to produce, we find we have a lot of things in common. On pages 5 and 6 of my submission — and by no means is the research exhaustive — I've outlined highlights of some research on the impact of early education on reaching some of the goals you yourself have stated are important.

One is that if you want children to do well in school, one of the first places to start is with quality early education programs. The National Forum on Health in 1997 just said that a key determinant of health in children and adolescents is quality early education programs. The National Forum on Crime Prevention has just stated that a key component in the prevention of youth crime is early education care programs. Canadian research shows that welfare costs can be reduced by supplying child care. Child care also has a proven record as a support for children at risk, for reducing child poverty and for economic stability.

The one thing that all the research is unanimous about — and for such a small service, child care is very well researched — is that if you want to get the benefit of child care, it has to be high-quality child care. From our organization's point of view, we'd like to appeal to the government that if you're not prepared to put public funding into high-quality child care, then don't put any public funding in. It is worse to provide poor-quality child care than it is to provide no child care.

There's an assumption on the part of parents that if there is public support for a program there will be regulations, there is a level of quality that is guaranteed. If you don't plan to provide that quality, don't mislead parents in terms of funding it. I'm not trying to be alarmist here, but the research is unanimous that poor quality care is actually worse for children than no care at all and that even the best parents cannot compensate for children being in poor-quality care arrangements.

It's for this reason that our organization and others like us are particularly alarmed that the government is looking at redirecting public funding into an area of care for which there is no public accountability and for which the research overwhelmingly shows that the level of care is inadequate.

1740

I would like to point out one of the studies to you on page 7 of the report. It seems that in the last week this government has listened to people in Metro Toronto who said they did not want a US-style city. What we are saying to you is that we do not want US-style social programs. When we look at the way child care is funded in the United States, a large amount of the money, in fact the majority of the money, goes in what are called direct payments to parents and then parents are free to go shopping around in the marketplace for the care they want, which is largely in the informal sector.

US studies show, and this I think is very alarming, that 9% of care produced this way is actually rated as good quality; 56% is rated as adequate, that it does the child neither harm nor good; but 35% is rated as inadequate. "Inadequate" is defined as harmful to the health and safety of the child. There is a situation where public funding is being used to put children into care arrangements where one in three are actually harmful to the child's health and safety. This is a US-style model. This is the model which the government is moving in the direction of and this is a model which we'd like to urge you not to move into.

There is another point we'd like to emphasize, that is, that built on this is that public funding for child care must be accountable. If funding goes into the informal sector, there is no accountability for that funding. We do not know what we are buying. We often end up paying twice this way. I'll give you an example from Alberta where a colleague of mine runs a child care program which receives additional funding from the federal government. Children who receive subsidies in Alberta's informal child care sector are bused to a half-day program to get what's called a head start program. Here we have children who are funded once in terms of having a subsidy for informal care and then have to be funded twice for this head start program to make up for the fact that the care they are getting in the other half of their day is inadequate. This is just one example of poor use of public funding. It's paying for a service twice.

What we hear often is that child care is too expensive and that is why the government is contemplating the direction it is. The average cost of a subsidized child care space in Ontario is $6,400. That's on a par with what Ontario pays for public school education. I think this says something. When we're looking after children who are under five, it's more labour-intensive; these children need, if anything, more intensive care and we're spending no more on them than we're spending in the public school system. When we look at child care where there is no administration, where there is no infrastructure cost, next to none, where 85% to 90% of the costs come in staff costs, we're getting quite a good price for child care. I would argue that it's not expensive.

In terms of maximizing what public funding there is for child care, we're urging you to look at spending public funding on child care in a way which enhances funding partnerships with other parts of the community and other levels of government. Child care in Ontario is a $1-billion service and 50% of that funding comes from parents. However, some of the government's stated policy direction would undermine that partnership. Let me give you a few examples.

One is that by eliminating the wage subsidies, if programs have to compensate for the loss of the wage subsidies by charging parents, it would cause fees to rise by $15 a day. For many parents, child care is already their major cost. They cannot assume those kinds of increases. If the wage subsidy is removed, full-fee-paying parents will leave the system, and if anything, subsidies will then become too expensive both for the municipalities to provide and in terms of the user fees which will be placed on subsidized parents.

When the government talks about targeting child care subsidies to families most in need, what they don't recognize is that this is a very expensive way of providing child care, and it eliminates that large amount of money that comes in child care user fees from families who are subsidized. To look at Metro Toronto alone, Metro Toronto currently spends $27 million for its share of child care funding; $18 million of that comes from the parents who are subsidized. If you go and start targeting those subsidies to a narrower and narrower income range of parents, what you're doing is taking out of child care those large amounts of money paid by parents who are now receiving partial subsidies.

By eliminating the major capital fund, this government has just left itself out of the possibility of forming partnerships with the federal government around its infrastructure program. Again, if we use Metro Toronto as an example, they have put aside capital funding for child care in order to be able to access federal infrastructure money.

Also, with the changes in educational funding the government is looking at — 40% of child care in Ontario is in schools. Public education benefits from this but child care also benefits from this. What we're hearing from the school boards is that if these changes go through as contemplated, there will not be any room for child care in the public education system.

Finally, public spending on child care should produce public support. What is unique about child care in Ontario is that there is a mixed-income user base, that families across an income spectrum use child care, and because there is that range of access there tends to be more public support for child care. If we are going to have public spending, we should spend it in such a way that it's accessible to a wide range of families in order that there be public support.

Our recommendation to you is that this can be increased, that we can look at a larger sliding income scale so that those moderate-income families who are now spending millions and millions of dollars in the underground economy in child care could bring that money into the regulated sector. The government would also have tax revenues from this.

Finally, just a quick point on the integrated child tax benefit, that wonderful go at child poverty that we saw in the federal budget. Our remark would be that this is hardly a child poverty strategy, that if the federal government was interested in child poverty the money would go to all children who are poor. That's not the case. What we have is a welfare reform project under way in partnership with the provinces. The main thing that child benefit ignores is that if parents are going to make the leap from welfare to the workforce, they must have child care and that child care should be good. Thank you.

The Chair: Thank you very much. That leaves us about three minutes per caucus for questions.

Mr Cordiano: I particularly enjoyed your brief, because it sets forth a number of concerns which have been largely overlooked by this government. On a scale of priorities, child care has been sliding off that scale in the recent past. We need to better understand the link and the relationship between child care and providing good child care and what happens in our economy.

Just as the environment has taken a back seat to what's going on in the economy, so too has child care, and for that matter, concerns regarding women and their situation in the workplace. We have to elevate that and understand that it's not just women who are affected but entire families who suffer as a result of the lack of proper child care.

1750

Your comments with respect to the downloading — as you quote the Toronto Star, making child care mandatory without the money to pay for it or setting out standards is a recipe for disaster. Those standards will not be maintained throughout the province.

Can you elaborate further on that? I think what we're seeing is a government that is determined to use the private sector in many fields to deliver essential services such as child care. We're going to see an increase in privatization and an erosion of standards. I'm trying to square that with what this government is doing by mandating and then setting standards that I think will be at sub-par levels compared to where they are today.

Ms McQuaig: The approach the government took around downloading and based on the discussions they're now having with municipalities is that rather than taking the steps they've outlined in the Ecker report, many of which received such a negative response from the community at large and from the media — this also is being downloaded to the municipalities but the municipalities are being given what's called flexibility in order to provide child care.

I highlighted one issue, which is that they must provide child care but not necessarily in the regulated sector, that they can move their funding into the informal sector. There will be a great deal of pressure on municipalities to do this because not only is the cost per space less, but in doing so they are not responsible for their share of the wage subsidy and they're not responsible for licensing. By definition, if it's informal it's not licensed, it's not monitored. There will be great cost pressures on municipalities to go that route.

The other issue is that what the municipalities are being told is: "Don't worry so much about the cost. When our new legislation comes down, while you'll have staff looking after more kids, you won't have to worry about some of the more costly items in the Day Nurseries Act. You can control costs that way." Again, it leads us back to this: Don't fund child care if you're going to fund it badly.

Mr Pouliot: Ms McQuaig, your presentation could not be more apropos. Most people recognize that there is a need. I wish I could be certain that the needs you've addressed will be addressed in turn by the government. This is a government that when it has a choice between child care, women and banks, the banks win every time. This is a government that on the one hand puts tens of thousands of dollars through a tax break to people who need it the least — in its extreme, bank presidents, who make $2.5 million, $3 million with options, a year — and the very next day announces they are shutting down 11 hospitals. That's the kind of world we live in. It doesn't make much sense to some.

With child care, the downloading, what about standards?

Ms McQuaig: There are none. There are very few.

Mr Pouliot: We know the exercise is not revenue-neutral. We know very well they're going right to the very heart. When it comes to social programs, it is the people who can least defend themselves, those who don't vote or are too young to vote, those who don't have the clout of money, who are asked to carry the agenda of these people. When it comes to the human dimension, when it comes to caring for those who are less fortunate, they cannot resist the seduction of those who can run the fastest. They've made their choice. For the rest of us, what you're looking at is the erosion of the middle class.

I wish you well. We'll be on your side. We'll fight the fight together, but it's going to be difficult, especially in the next two years, until the electorate of Ontario do what inevitably they shall do, but they'll have to wait a couple of years to do that.

Mr Martiniuk: I can't help but comment. I can't imagine a government that has done more in this country to eliminate the middle class than my friend from the third party.

However, I thank you for your presentation here today, but there's one basic philosophy I have some real difficulty with. When I was in economics some time ago, in the late 1950s and early 1960s, our friend Laski from the London School of Economics and his preaching of universality was the conventional wisdom, as Galbraith once put it. I can understand that. To me, it was a very good thing at that time.

With the shrinking pie — we've set up a social system which depends upon an unemployment rate of 5% or 6%, and all of a sudden the pie has got a lot smaller, not just for ourselves but also in Europe. They have an unemployment rate in France, as you know, of 12%. Germany is there. We're all having difficulty coping with the pressures and the needs, and there's no doubt there's a need for child care. We understand that, and I agree with everything you've said in that regard.

My problem is, how long can we continue to subsidize the wealthy or the middle class? That's what a wage subsidy on child care staff does. In effect, what's the morality of taking money away from people who are really needy and providing it to people who are making $60,000, $70,000, $80,000 a year? Because of the shrinking pie, I've had to change my mind, because I think it's more important to benefit those who are really in need than to subsidize my friend's "rich friends," as he wishes us to do.

We could come out with a program such as Mr Martin has — their cousins, the federal Liberals — come out with smoke and mirrors and say we're doing something.

Interjection.

Mr Martiniuk: We know it's a farce, and that's why he's getting a little excited there, because he knows that too.

What are we going to do about universality? That's what you're advocating.

Ms McQuaig: No. What I'm advocating, and I tried to be very clear here, is that when we spend public money it should produce more money. By having that funding in child care, by having that wage subsidy in there — I'm not going to argue with you that that isn't a subsidy for middle-income families, but without that subsidy, middle-income families would not be able to afford child care. Don't forget, they put in a great deal of money.

If your daughter wants to buy an infant space in Metro Toronto right now, she's going to be spending $1,200 a month. That's with the wage subsidy.

Mr Martiniuk: Oh, I see. So it's not universality; we're arguing about how high the level should be, that's all. But there should be a needs test. You do agree with that?

Ms McQuaig: I am urging you that if we really want to have a partnership between parents out there who are using child care and the public funding that goes in, what public funding should do is produce more parent revenue. The way to produce more parent revenue isn't by targeting it to those in most need, because if you do that, you lose the parent revenue, not an insignificant amount; $500 million of parent revenue goes into child care. If you want to change the way it operates to target it, to force the middle class out of it, what you're doing is forcing the $500 million out of it. You're losing that partnership you now have between an income range of parents who are paying a share of the cost of child care along with those who are more heavily subsidized.

Mr Martiniuk: What would happen if you don't do this? Does it mean they're out of the market totally?

Ms McQuaig: Absolutely. If you take away the wage subsidy grant, the cost per day of child care for that infant space goes up 15 bucks day. Already for many parents, child care is their most major cost. We can't pretend that you can raise child care 15 bucks a day and you're still going to have those parents using regulated child care. They can't afford to.

Mr Martiniuk: Then we're in agreement that it's a matter of need and examining the needs rather than doing an across-the-board subsidy to the wealthy?

Ms McQuaig: No. What we're talking about and what we've been arguing for some time now is that what we need is a graduated income tax which goes across a wide range of income users. Maybe I can't spend a thousand bucks a month for child care, but I can spend $600; right now, if I can spend $600 I don't have a space; I have to spend that in the informal sector. In Metro Toronto alone, that informal sector is $450 million.

Mr Martiniuk: The problem is that by subsidizing wages, you lose control of your means test. That's the problem. There's the basic disagreement.

Ms McQuaig: What the research shows is that good child care cannot be supported through parent fees alone, even if they are subsidized. It brings us back to the fact that without that public funding going into child care, what we're going to get is bad child care programs, and that's not in anyone interest.

The Chair: Thank you very much. That brings us to the conclusion of our day, the conclusion indeed of these hearings. We thank you very much, Ms McQuaig, for your presentation to us today.

We have the business of a subcommittee meeting at some point in time. We have a vote coming up in the House. Perhaps, with the committee's approval, we could have a conference call subcommittee meeting next week. Would that suit the needs of the committee? We have to decide on Bill 106. Okay. We will do that next week, clerk, if you can arrange an appropriate day.

Thank you very much. There being no further business to bring before the committee, the committee stands adjourned.

The committee adjourned at 1803.

CONTENTS

Thursday 6 March 1997

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Chair / Président: Mr Ted Chudleigh (Halton North / -Nord PC)
Vice-Chair / Vice-Président: Mr Tim Hudak (Niagara South / -Sud PC)
Ms Isabel Bassett (St Andrew-St Patrick PC)
Mr Jim Brown (Scarborough West / -Ouest PC)
Mr Ted Chudleigh (Halton North / -Nord PC)
Mr Joseph Cordiano (Lawrence L)
Mr Douglas B. Ford (Etobicoke-Humber PC)
Mr Tim Hudak (Niagara South / -Sud PC)
Mr Monte Kwinter (Wilson Heights L)
Mr Tony Martin (Sault Ste Marie ND)
Mr Gerry Martiniuk (Cambridge PC)
Mr Gerry Phillips (Scarborough-Agincourt L)
Mr Gilles Pouliot (Lake Nipigon / Lac-Nipigon ND)
Mr E.J. Douglas Rollins (Quinte PC)
Mr Joseph Spina (Brampton North / -Nord PC)
Mr Wayne Wettlaufer (Kitchener PC)

Substitutions / Membres remplaçants:
Mr Frank Klees (York-Mackenzie PC)

Clerk / Greffier: Mr Franco Carrozza

Staff / Personnel: Ms Alison Drummond, research officer, Legislative Research Service

Lacking F33

F-34

F-34

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Comité permanent des finances et des affaires économiques

Pre-budget consultations

Consultations prébudgétaires

Chair: Ted Chudleigh
Clerk: Franco Carrozza

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ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Tuesday 18 March 1997

Mardi 18 mars 1997

The committee met at 1011 in committee room 1.

PRE-BUDGET CONSULTATIONS

The Chair (Mr Ted Chudleigh: Yesterday we had a number of issues that were to be researched and then we would discuss them again today. There have been a number of changes made.

What I would suggest, with the committee's approval, is that we turn it over to the research assistant to take us through those changes and that as we go through them we talk about them so we can move on in a progressive manner. The alternative would be to let the research assistant finish her comments and then go back through them. If I suggest the former, would you agree? Thank you. I don't think it makes a lot of difference. Alison, would you take us through, please?

Ms Alison Drummond: If you take a look at the document the clerk just distributed, it's the second draft. Starting on page 1, the italicized questions obviously are going to go. If you look, a line by the side of the page indicates where change has been made; that should direct your eye to where I've made changes.

Starting at the sixth bullet point under "Minister of Finance and Staff," this was where the first concern was raised by Ms Bassett. I changed the wording to read: "Ontario's real trade balance was a record high of $17 billion over the first three quarters of 1996." That's simply a wording change.

The second change I have made — that was simply an error I had made. It was fourth quarter department store sales that were up 7%, not fourth quarter retail sales, and I apologize for that.

On the next point, on auto sales, I changed the wording to what the minister had said in Hansard, which compared November 1996 auto sales to November 1995 auto sales.

The Chair: Are there any comments from any of the members?

Mr Gerry Phillips (Scarborough-Agincourt): All I care about is that this reflect what Hansard said.

The Chair: The research assistant assures me this is accurate.

Mr Phillips: That's fine.

Ms Drummond: On the second page, the paragraph which starts off, "In response to questions," the minister did not discuss the job creation indicators, so I've cut that section out.

The other change was to "announced improvements such as the small business investment tax credit for banks." That's it for that section.

The Chair: And this reflects —

Ms Drummond: What was in Hansard, yes.

Mr Phillips: So he never said the job creation was lagging other indicators?

Ms Drummond: No, the question was on job creation indicators, but the response did not say that.

The Chair: Okay. "Fiscal Situation"?

Ms Drummond: In "Fiscal Situation," the wording as it is here follows the wording the minister used more closely, and that's pretty much as it appears in Hansard.

"The deficit outlook is $7.7 billion for 1996-97, $508 million lower than the 1996 budget forecast. The target for 1997-98 is $6.6 billion, an improvement of more than 40% since June 1995."

In the paragraph at the bottom of that page, "Operating expenditures have gone up as compared to the budget forecast." In the last sentence of that paragraph on that page, as to the $53-million decrease, the document I was working with in the slides just showed it as a decrease, but I checked Hansard and indeed it was described as an accrual adjustment.

In the second paragraph on page 3, that's more a wording change for clarification, but that was what was stated on the $650-million reserve.

Finally, in response to the question on harmonization and the ministry staff discussions, again I think that's just a clarification of what the staff was talking about with the Maritime provinces agreement.

Mr Gilles Pouliot (Lake Nipigon): When we talk about both operating and capital expenditures going up, do we have a percentage? I find it troubling when you seem to be more dependent. The figures are telling; they're rather astronomical. It's expenditure that we are concerned about. Revenues go up and down; sometimes they can be sustained, but they're certainly more prone to cycles than are expenditures. That's usually the catalyst, and I would like to know what percentage expenditures have gone up by — not vis-à-vis the forecast, but vis-à-vis real numbers, what was spent before and what is spent now, whether it means the government is spending more, cannot get its spending under control.

Ms Drummond: So you're asking me to calculate spending as compared to 1995-96?

Mr Pouliot: Yes; no rush. Thank you.

The Chair: Shall we move on to "Financing"?

Ms Drummond: Under the second point, the $1.6 billion that was raised in the domestic market, I apologize for that. I just missed that in the draft and have corrected that. The remaining $1.8 billion is of December 31. I apologize; I will add that.

I think that's it for this section. The next revisions that were requested were on page 13.

The Chair: "Other Witnesses: Fiscal Issues."

Ms Drummond: That was the changes in numbers.

The Chair: Okay, the change in number to three and the naming of those witnesses, as we discussed yesterday.

Ms Drummond: But also it's the specific numbers.

The Chair: And "Sixteen other witnesses"?

Ms Drummond: Well, there was some disagreement on the numbers, so if I could have —

The Chair: You haven't had time to match the two lists?

Ms Drummond: No, I've tried to, but I haven't reached it. If I could get permission to reach a consensus on that through the committee.

The Chair: This is going to require a little bit more time than we have at lunch.

Ms Drummond: Yes.

1020

The Chair: Would it meet with the committee's approval if these numbers were reviewed by the research officer and the finance department staff and final approval rested with the subcommittee? I ask for that because we may not meet tomorrow. If we meet tomorrow, you would have time by tomorrow?

Ms Drummond: Certainly.

Mr Tim Hudak (Niagara South): Chair, that was just about counting whether there are 16 or 24 witnesses or somewhere in between?

The Chair: Yes, the research officer would ensure that — if someone said they supported it, it would have to be documented and it would have to be recorded in Hansard.

Mr Hudak: I can put my faith in the subcommittee.

The Chair: Assimilating those two lists, I think, is the trick. Okay? So the subcommittee will have final approval on that, if required, and that's on the basis that we do not meet tomorrow. If we do meet tomorrow, it will probably be available. We haven't even got into recommendations yet, so we may very well be meeting tomorrow. Okay, so those are the numbers.

Ms Drummond: The next change that was requested is on page 14 under "Personal Income Tax." This was just some background I provided from the budget, so what I did was followed the phrasing in the budget: "Provincial income tax was cut from 58% of basic federal tax to 54%." I've added the phrase "for the second half of 1996" to clarify that point.

The next request for revision was again counting witnesses, so again it's if you would allow me to continue to go over that material.

The Chair: That's at the top of page 15: "Five witnesses"?

Ms Drummond: Yes.

The Chair: That's the second number for clarification.

Ms Drummond: Yes, and that's the same issue under "Harmonization." Otherwise, revisions I've made to the report have been naming witnesses where I had simply "five witnesses" or "two witnesses" or whatever.

The next substantive change is on page 19. After the discussion of the restructuring announcements in January, I've given some background on those announcements on pages 18 and 19. Ms Bassett requested some indication that there may be some changes to those proposals, so that paragraph, essentially the second paragraph on page 19, was my effort to do that with some background.

Mr Phillips: The committee requested that yesterday, did they?

Ms Drummond: I had understood that was a request from the committee.

Mr Phillips: Do we have Hansard at these meetings?

Clerk of the Committee (Mr Franco Carrozza): Yes.

Ms Drummond: I believe it's for any kind of substantive changes. There will be indications that there have been additions and those are simply listing witnesses.

Then on page 28, for the second paragraph under "Access to Capital," I went back to the CFIB brief; indeed the discussion was very specifically of the labour-sponsored funds, so I've added that to the sentence and just improved the parallel structure a little bit. I think that's all.

The Chair: Any other comments? Then we're ready to proceed with the introduction of recommendations, I take it. Are the three caucuses prepared to table their recommendations?

Ms Isabel Bassett (St Andrew-St Patrick): Yes, we are.

Mr Phillips: I'm sure ready.

Mr Pouliot: We don't have ours yet.

The Chair: When do you think they might be coming? Will you be having any?

Mr Pouliot: We will likely be against most recommendations by the government. The fix is in. We know how these things operate. I'm not so sure that anything that could be said by parties of the opposition, given the obvious majority — notwithstanding the comments of Premier Harris, which was an outright departure from the truth as we know it, the majority on the committee will prevail, through the good auspices of the parliamentary assistants and their legitimate cohorts.

We have some differences mostly vis-à-vis the tax cut. We feel that in lieu of that, you'd get better action direct if that money was to be directed against the deficit. You're caught between the deficit and what portion of it and the commitment of the tax cut vis-à-vis an acceleration.

These are good times. Revenues are coming in, you're doing very well, your export market is okay; it's driven by the primary sector of automobiles, auto parts. You're doing great; you're to be commended; you've had good fortune. But your expenditures are still a problem in spite of the cuts, and they will keep on being a problem as the demographics take over.

I'm not so sure that you have a focus, and we begin to see that some of the policies that were drafted, not because of the lack of consultation — I too am aware that you can consult forever and become inactive or paralysed on account of it. It's a complex situation. What happens elsewhere cannot necessarily be duplicated. You can take the good, but no two situations are alike. I'm concerned about the lack of data vis-à-vis expenditure.

The Chair: Mr Pouliot, I understood there was an agreement that we would all introduce our recommendations at the same time so that no advantages could be taken of the other group. Could you give us an indication as to when you might be introducing —

Mr Pouliot: Simply put, I'll look at our research. You need 25 people; some of us sit on two and three committees by substitution. You're in Thunder Bay one day and you're in Ottawa two days after and then you pick up the piece of paper. Our researchers say that, for instance, one person has to look after health — and we know the ongoing responsibility that entails; it speaks for itself — and finance and children's issues at the same time. We'll endeavour to put the rush on, but we treat our people kindly. We'll remind them: "Look, this is overdue. It was overdue last week." They have copies of all the briefs that have been presented. My apologies.

The Chair: I'm in the hands of the committee. Do you wish to introduce your recommendations now or do you wish to wait for the third party to come up with its recommendations?

Ms Bassett: I think we should go ahead as planned. As the honourable member pointed out, they're very busy, and who knows? In two days they're probably booked on to something else. We've booked ourselves into this at this time. If Mr Phillips is in agreement, I think we should go ahead.

The Chair: Mr Phillips, would you agree to that?

Mr Phillips: Sure.

The Chair: Okay, let's proceed. We'll recess for 10 minutes to have enough copies made for everyone.

The committee recessed from 1030 to 1039.

The Chair: We now have the Liberal recommendations and the PC recommendations. What is the committee's wish? Should we go through the recommendations first, one by one?

Ms Bassett: We might sort out some general agreement. I think what we did last year was go through and vote in blocks, and then siphon off the ones there's absolutely no agreement on. But I'm happy to listen, whatever format you want to go.

The Chair: That seemed to work fairly well last year. Would you approve that process? Which list should we start with, the government list?

The government list, number 1: "The government should honour its commitment to reduce the deficit and balance the budget by the fiscal year 2000-01."

Mr Pouliot: I need your help, Chair, on this first recommendation. It says, "should honour its commitment." The election was held on June 8, 1995. Constitutional requirements ask that you go to the people within five years. The commitment was that it will be in the first term of office. It's in the CSR, that document there. You seem to surpass or exceed your constitutional capacity by adding one year. The commitment was to balance its budget in the first term of office. You would have to, essentially, backtrack on that commitment.

Mr Joseph Spina (Brampton North): In the CSR it says 2000-01.

Mr Pouliot: It says first term of office.

Mr Spina: The revised CSR.

Mr Pouliot: Oh, so it's the second one.

Ms Bassett: We must give you the updated version.

Mr Pouliot: It was directed to you.

Mr Phillips: Find it in there.

Mr Spina: Is that the one after Paul Martin's —

Mr Phillips: Yes, the sixth printing.

Mr Pouliot: That's why I need your help from time to time. So it's the second commitment, then, the newest version.

Mr Phillips: Was it in this one? I really can't find it in here either.

The Chair: It wasn't in that one. When we found out the deficit that was current, there was an economic statement made.

Mr Pouliot: Is this supported by legislation, and should it not indicate that to give it more credibility? Is this what is being meant by the government when it says "should honour its commitment"? Is it going to be supported by legislation like a real commitment?

Ms Bassett: We made an election commitment on the campaign trail and subsequently that we would balance the budget by 2000-01, and indications show that's what we are doing. We're well on the track, as many of the witnesses said, to do that. I think that is sufficient. We don't need to burden ourselves with added legislation. We're trying to reduce legislation. It's obviously clear to everyone that's what we're doing.

Mr Pouliot: You also made a commitment of — but we'll get to this. I'm sure the Liberals will want to talk about the 725,000 jobs. You can make all of us rich, madam, in the future, but what about now? You have little credibility unless you have clout, you mean what you say. You say you're going to pass legislation. It only adds one more line on your recommendation. Is your committee willing to do that, to go that far?

Mr Jim Brown (Scarborough West): Would you support it?

Mr Pouliot: I'll support anything which is going to help you.

Mr Wayne Wettlaufer (Kitchener): Did Hansard get that?

Mr Pouliot: I would stick to your family; they're safer. Thank you, Chair.

Mr Phillips: It does say, "This plan will balance the Ontario budget within our first mandate." That's the latest. That was the one that was only days before the election. If you want to amend it and say, "within our first mandate plus a year," that probably would be acceptable to us.

Mr Spina: Looking at page 18 of the Common Sense Revolution, there is a chart on the upper left-hand corner which clearly shows a dot balancing the budget at 2000, which would be the fiscal year 2000-01. You may perceive it as a stretch, but I'd just point that out for clarification.

Mr Phillips: It's the first mandate plus nine months.

Mr Spina: Any of the statements that both the Premier and the finance minister have made have always indicated fiscal 2000-01.

Mr Pouliot: That says the first mandate. We can count. Are you going to have a six-year term of office?

Mr Spina: The first mandate ends in June 2000 and the fiscal year 2000-01 begins April 1, 2000.

Mr Phillips: So it's within your first mandate plus nine months. You may not agree to amend it.

Mr Spina: Can't you give us a few months?

Mr Phillips: If you want to get rolling, I'd say it's reduce the deficit and balance the budget within its first mandate plus nine months; just amend that.

The Chair: Are you moving that as an amendment?

Mr Phillips: Just to make it consistent with the CSR.

Mr Spina: The mandate is already five years and three months, is it not, Mr Chair?

The Chair: You're not allowed to ask the Chair technical questions.

Mr Spina: Could we ask for clarification from the clerk or research officer?

The Chair: What was the question?

Mr Spina: The actual term of office from election to election, if I understand it, is five years and I think it's either three or six months from the anniversary of the election.

The Chair: It's five years from the point of swearing in, I believe.

Mr Spina: Which means that this government would not be committed to calling another election until some time during the summer or fall of 2000, which would be well into the fiscal year of 2000-01.

Ms Bassett: Could I pick up on page 81 of the budget. It's clearly stated under "Economic Policies" that we "will balance the budget by 2000-01." That is exactly what our recommendation refers to. I don't know why we're getting caught up in the mandate.

Mr Pouliot: With respect, the chance is that you could well be out of office by that time. What you're doing is borrowing in the future. You have to go to the people in our system, and I don't hear anything about changing the system. The way you're spending money — please.

Mr Spina: The way we are spending money?

Mr Pouliot: You people are back-spending like drunken sailors. At least drunken sailors spend their own money, but this is the people's money, so there's little credibility, and who says they will wait until June to call the election? They have no control over the year 2000-01. That would be four years and 10 months into the mandate. They know that; I know that.

The Chair: There's an amendment before the committee. Is the committee prepared to vote on the amendment?

Mr Phillips: Recorded vote.

Ayes

Phillips, Pouliot.

Nays

Bassett, Brown, Hudak, Rollins, Spina.

The Chair: I declare the amendment defeated.

Is there any further debate on this recommendation? Those in favour of this recommendation? Those opposed? That would carry.

The second recommendation: "The government should continue the reduction of personal income taxes to stimulate job creation, investment and consumer confidence."

Any debate on this recommendation?

Mr Pouliot: I'd like to move an amendment to read as follows: "The government should discontinue the reduction" — I'm talking about instalments, assuming that the style will carry — instalments three and four on the personal income tax. I feel very strongly that economic fiscal management can best be reflected and achieved through a direct attack on the deficit as opposed to a trickle-down theory, where you don't get what you intended to, you don't even get 50 cents on the dollar, and it takes too long to reflect in the economy, if it does at all. I feel that the money — it's over $1 billion per instalment — should go directly against that deficit.

The Chair: Further debate on the amendment?

Mr Spina: Frankly, the reality is that the beginning of the tax reduction and the trickle-down effect that my honourable colleague talks about clearly has been demonstrated already in a surplus of revenue to the government as of this past January, which the minister clearly reflected in his economic statement.

1050

It worked in 50 other jurisdictions, where revenue increased. Whether they balanced their budget or not was a different matter, because they did not reduce spending, particularly in the US as has been commonly touted. But the reality is that revenue unquestionably exceeded expectations as a result of tax reductions. Therefore, we must endorse the continuance of the personal income tax reduction as has been planned.

Ms Bassett: If I could add to that, I just wanted to add to my colleague Mr Spina's comment, that 12 groups, including Michael Manford, recommended that the government should continue the reduction of personal income taxes to stimulate job creation, investment and consumer confidence.

Mr Phillips: We'll get into this endless debate. The job situation is a disaster. You may choose to ignore it, but we've lost 57,000 jobs in the last six months.

Mr Spina: We've also gained 135,000.

Mr Phillips: This is why, frankly, the debate is a bit useless around here, because as soon as you begin to make a point — you've lost 57,000 jobs. The rest of Canada in the last six months has gained 73,000 jobs. If you get in behind the numbers on the finances, as the minister acknowledged, you'll find that the key reason why we have a significant growth in revenue this year is because the federal government has given the provincial government its final numbers, and it is as a result of understating the personal income tax revenue from 1995. Personal income tax revenue this year, right now, is down $600 million over the previous year.

I know you're committed to the tax cut. There's nothing we can do to stop you on that. I thought Colin Brown said it very well for you, that government's a beast that has to be starved, and that's what the tax cut is all about.

I'm just saying that I have a very different opinion than you do. I think we have a disaster on job creation, particularly for our young people, and the longer you accept that it's all fine, the longer the problem exists and the longer it will take before we tackle it. I think it's a tragedy. I personally think you're being bamboozled by the cabinet on the numbers. That's my own view; you can reject it. But if you look at the employment numbers, they are a disaster by any stretch of the imagination. If you look at the success or failure of the tax cut so far, you judge it's a failure. These numbers cannot continue. We can't have this disastrous an employment situation.

We'll have this kind of mindless debate here for a while, with you having your view and me having my view, and essentially run the risk of wasting each other's time by our minds being closed on it, but I can't support that you have any evidence at all the tax cut is working. It is, without doubt, driving expenditure cuts far deeper than need be, even on your health thing. We're looking at a 10-year freeze on health spending; it isn't just a two-year. He shakes his head and says no, but those are the numbers.

In 1992 the province spent $17.5 billion on health care, and your promise is that you'll spend $17.5 billion in the year 2001. To me, that is a 10-year freeze on health spending. That's what you're telling me you're doing.

Mr Wettlaufer: Your party was going to spend $17 billion.

The Chair: Further debate on the amendment?

Mr Pouliot: In support of the amendment, I appreciate that we have to go back to the presentation. It was indeed food for thought, and for the most part I found him to be sincere, well prepared, well presented. I don't think that anyone can be satisfied, be it 9.7% unemployment at the national level, 9.25% in Ontario, with an emphasis on the most vulnerable, who happen to be the future, the group between 15 and 24.

We have to factor in that the service industry is overrepresented, if you wish, which entails not jobettes, because people are participating, they're contributors; by the same token they're not high-paying jobs. I know it does take time.

My feeling is that you will be further pressed to the tune of $5.4 billion divided by two, the third and fourth instalments, $2.5 billion, $2.6 billion, that you will quickly have to go inside and get that money or cut equal money in terms of expenditure. With the pressures on health, first, and education, because your timetable commitment number 1 is so telling, it puts on a lot of pressure. As I weigh the benefits of the tax cut — it's welcome; we all agree that we're paying more taxes than we should perhaps — and then I look at the deficit, and my interpretation of economics is that you don't — yes, a tax cut, the perception, it's encouraging, but it takes too much time, that you're better off paying the debt. Then it gives you an awful lot more latitude.

I think you're gambling too much, and the odds are getting long if you can deliver on all your other promises. It's only my perception and the way I see things, not entirely different from the government side, but it's a matter of opinion and interpretation that I would like to see more emphasis on the deficit, which would stop you from having to dislocate the system, because you're already under a lot of pressure. You started with an $11.2-billion deficit and the revenues are going well, but you become fragile the closer you come to your commitment. That's all I'm saying. I would chance on forgoing instalment 3 or 4 or maybe less on instalment 3 or 4 and focus on the debt. Mind you, politically, I know what that would entail.

The Chair: Any further discussion on the amendment? Are you ready for the question?

Mr Pouliot: Recorded.

Ayes

Phillips, Pouliot.

Nays

Bassett, Brown, Hudak, Rollins, Spina, Wettlaufer.

The Chair: I declare the amendment defeated. It was moved by Ms Bassett. Any further debate on the motion, on recommendation 2?

All those in favour of recommendation 2? Those opposed? I declare the motion carried.

Number 3, Ms Bassett: "The government should keep its commitment to reducing payroll taxes and continue the reduction of employer health tax in order to stimulate job creation for small business."

Debate? Are you ready for the question?

All those in favour of the motion? Those opposed? I declare the motion carried.

Recommendation 4, Ms Bassett: "The government should continue to eliminate red tape and unnecessary regulation and reduce the barriers to investment."

Mr Pouliot: I too love my mother. I just feel particularly touchy this morning. Mr Chair, would you help? "Reduce the barriers to investment." Positive tells you, when you come here to learn English, that you encourage investment. There's nothing negative about that. What you are saying with the second line is that you're almost killing the good deeds that you intend to convey in the first line. Encourage investment. No one is evil here. It's not barriers to investment. You encourage investment; you don't reduce barriers. It says the same thing, but it says it more positively, from a government that should be positive. Picky, but if you're going to put it through.

1100

The Chair: Is there further debate? We'll see that Mr Pouliot's mother gets a copy of Hansard.

Mr Pouliot: They'll say yes and then they'll go to the House and say, "Who says we don't listen to the committee?"

The Chair: Are you ready for the question? All those in favour of the motion? I declare the recommendation carried.

Recommendation number 5, Ms Basset: "The government should encourage the federal government to act on its budget commitment to establish an income-contingent loan program to help increase students' access to post-secondary education."

Mr Pouliot: Clarification from the government side: I listened to Mr Martin on his budget. Is this post-budget? My understanding is that there was some encouragement. Are we saying that there was not enough encouragement, you would have liked to have seen more, or was this drafted prior to Martin delivering his budget?

Ms Bassett: I can answer that. We've been working together with the federal government and we feel that the recommendation is necessary because we want to continue to pressure them to carry through with it. It's very important to us, and to them.

Mr Spina: They frankly have not responded as quickly as we would have hoped, because as you may recall, in last year's budget we had introduced this idea. There are negotiations, but we need their full cooperation to fully

implement this. As Ms Bassett said, it is our intention to continue the pressure. Even though Mr Martin made the statement, he still isn't delivering, and that's the reason why we felt that it was important to reiterate it as part of this budget.

Mr Pouliot: But you see, the reason I say this here is, you say this en passant. This is a pre-budget consultation. Those recommendations from the committee will go to finance, to Mr Eves's fortress, and then he will be judicious and he will read it all. This is the federal government, I understand, but education is a provincial jurisdiction. It is a provincial budget. I know only too well that you're the government now. Should the focus not be on what you would like to see in the provincial budget, aside from the myriad laments of the federal government?

This is a direct message, recommendation, to our provincial entity. You're telling Mr Eves, the Minister of Finance of the day, your government, that this is what you would like to see in the budget, so what you would like to see in the budget is an encouragement, a signal, a voice to the federal government. Come on, really. It's, to say the least, feeble; well said for the gallery, but it does not interest anyone, even children.

Mr Spina: How would you beef it up?

Mr Pouliot: If the emphasis is on the provincial government to do something, to encourage and so on, to remind the federal government —

Mr Spina: Do you have an amendment?

The Chair: Further debate?

Mr Pouliot: Pardon me?

Mr Spina: Do you have an amendment?

The Chair: Excuse me, Mr Spina. Before we speak at the committee, usually the Chairman recognizes you.

Mr Spina: Sorry.

The Chair: Ms Basset.

Ms Bassett: I was just going to say that in the minister's budget of May we did say that we were committed to the income-contingent loan and to point out to Mr Pouliot that we do need the cooperation of the federal government at this time to move forward. That's why we worded it this way. We have a double commitment: One in our budget and one in this.

The Chair: Any further debate? Are you ready for the question? All those in favour of recommendation number 5, the motion? I declare the motion carried.

Number 6, Ms Bassett: "The government should work to improve access to child care."

Mr Pouliot: I'll ask the good character, the tolerance and the indulgence of my colleagues' focus, the government, the people opposite. We've had delegations, presenters after presenters. It is of your own making because of your philosophy of your approach, half of it deliberate, the other half consequential just as much. This group told you they were afraid, they were frightened. Now you have the audacity, the gall, to say the government should work to improve access to child care. You don't put any figures. You know the most vulnerable are of a different thought, and the presenters told us that. I can go one, two, three, four, five. There were a lot, almost unanimous. They said, "Beware where you've cut." Now you come up — because it's proper to do so. No one wishes to deliberately, and nobody does, but the very agenda makes that happen, if it happens by ricochet or indirectly, and it was felt by the presenters that you were not as sensitive as you should have been vis-à-vis the needs out there. Now you come up with a general statement.

This is not a speech from the throne. This is a budget. Show me the money. You have a program and you have the funding for that program. Otherwise, don't come. I mean, save it for the Saturday evening — Martin, Louis XIII, in the finest of boudoirs, for the club, the Boulevard Club. "Yes, we should do something and here, I'll sign the cheque." But the most important document, the most important care for people who don't have a voice — you're not seen in good light, so you feel to reinforce.

I'm going to support that — who wouldn't? — but I would like to see what they told you is more action. The doors are being shut, the service centres are being padlocked and we feel that your government's agenda does not allow us — in French we say "payant sur rue," front row centre — to be like the others.

Yes, the government should work to improve access to child care. They don't have the power and the purse — I'm sorry, your action betrays your good deed, but be it with the benefit of the doubt; no one is evil here, but I hope it's not mere words.

The Chair: Further debate? Are you ready for the question? All those in favour of recommendation number 6? It's unanimous. The motion is carried.

Recommendation number 7, Ms Bassett: "The government should keep its commitment to preserve $17.4 billion in health care spending and any money saved in hospital restructuring should be invested in priority health services."

Mr Phillips: I think increasingly we're all going to find that a 10-year freeze on health spending at $17.5 billion is going to create a crisis for us in health care. Over that 10-year period there will be 1.5 million more people in Ontario; 300,000 more people over the age of 65. We are kidding ourselves if we think that's going to be enough to sustain our health care system. So I have difficulty in cheering the government on if we really think that's going to do it in the year 2001.

1110

Mr Pouliot: I know it's not the place to really define it, you define it under estimates, but the government was weak in its negotiations with doctors, who, let's face it, take what some would call a disproportionate amount out of the health care system. We attract in Ontario fully 60%, under refugee and immigrant status, of new arrivals, people that pay us the compliment of their visit on a permanent basis to strengthen the country, so that means more people.

Mr Phillips is right: We also have demographics, so if you're spending the same money, the case can be made that you are spending less, because per unit, if you have more people and you have the same money in the pool and the costs of units keep going up and you have more people — and with the demographics, the last two years of a citizen's life, I think you spend 50% on health care, more than half of what you'll ever spend for your entire life before that.

It's conjuring illusions, if you wish. It's a little cheap magic. It's vaudeville. It's a tombola in the most remote

of villages. We know the way the shell game is played — $17.4 billion — it doesn't mean anything. I'm going to vote against simply because I want it to become a matter of record and say hospital restructuring is a mess. It's a mess out there. The demographics will come back to haunt you, but by that time they hope they will have lulled people one term at a time and they'll be in their third or fourth term of office.

I could not support this. This is the most telling pitfall associated with the chase for the mighty buck at the expense of health care. They're actually spending less and things are screwed up in the marketplace big-time. There is no other support in place. It's a transition without the alternative being present. They keep their fingers and their toes crossed, but it's not going to work.

Mr Spina: I would argue with my honourable colleagues here that, first of all, it's not a shell game, and second, Mr Phillips makes it sound as if the peak of the baby boom will hit the health care system within the next two years. I'm on the leading edge of that baby boom; I turned 50 years old. We're just now beginning to address it.

The reality is that this is strictly a benchmark of $17.4 billion. It's the bottom level, the absolute minimum we would maintain. That's what we mean when we say that we preserve that amount of money. The reality is that there has been $300 million more already put into the system and I would suggest to you, once we are in a position to increase spending where it is needed in an efficient manner, that it take place.

The reason the last item of that phrase, that "money saved in hospital restructuring should be invested in priority health services," is that both your governments put spending in hospitals on a patronage basis. Why does Windsor, with a population of 200,000 and a catchment area of 275,000, have four or five hospitals? Why does Sudbury have four hospitals with a population of less than 200,000 people?

Why does Brampton, with a population of 270,000 people and a catchment area of 325,000 people, still only have one underfunded hospital? Why does the entire region of Peel, 800,000 people, have three hospitals? Why do we have to rely on travel to the overfunded 44 hospitals of Metro when I should be able to, as a cardiac patient, access those services in my home riding, in my home community?

Because hospital funding has been passed out, has been doled out, by your governments on a patronage basis as opposed to a real-need, demographic-need, basis. That's how health care funding should take place and that is what this government is in the process of doing.

Mr Phillips: I think if you'd check back, you'd find that all those decisions were made by a Conservative government. I know that you're on a bit of a rant about it, and you must see these imaginary devils around, but you're probably chasing the wrong thing if that's what occupies your time and effort. You should probably look back at why those decisions were made and I suspect they were made by Bill Davis who thought at the time —

Mr Spina: Why didn't Brampton have a hospital?

The Chair: Mr Spina.

Mr Phillips: We'll have to talk to Bill Davis about that.

Mr Pouliot: It says health care and then we get a sortie on hospitals, the focus and the grab-a-club style. Don't cheapen the process, please. Everyone realizes that there's need to change. I know our party is not opposed to restructuring. Probably it would have entailed, had we been given time, the closing of some hospitals. But you've been at question period and people have asked that the money that is taken out of one community, that all efforts be pursued to put the money back into that community to provide the alternative.

If you say you're spending the same money, that's an invitation. You cannot project in 10 years, wishing well to everything, that the costs will be the same. You can cut, cut, cut and you find out that the costs are going up. MRI could cost more than scanners. The gadgetry waits for no one. We know about Bill C-91, about the pressures on the drugs. Every month you've got between 7,000 and 9,000 more people, in Ontario alone, going from 64 to 65; that's more than 100,000 people a year, and 95% of them latch on to the drug program. Those programs are open-ended. If you go inside the ministry, they're hard-pressed. You play ping pong between the program, the ODB, and then you go back to Trillium etc. You don't know what those costs will be but let's assume that those costs will be more in 10 years' time than they are now. If it's true for drugs, it's true for other programs as well because of the factors we've established.

I would like to see more clout. Spending the same money is just not good enough when one fifth or one sixth of the money on health goes to pay the "profession."

Mr Wettlaufer: This past weekend I was fortunate enough to watch a documentary on television. It was a very complete documentary. One of the comments made was that we know we are having a vast improvement in our health care system. This was by a professor at Wilfrid Laurier University, by the way. While he had some concerns about some of the changes that are taking place in health care, I think it is noteworthy that his most memorable comment was that we cannot continue to spend as we have in the past on a percentage basis. He said: "How much can we afford to spend on health care? We can keep on going the way we were and we would be bankrupt." I think it's important to keep in mind that health care is changing, is improving, as he said. As a result, it will not be necessary to keep funding it on the same percentage basis of the provincial budget as we have in the past.

We know that the Liberals had already stated, in their campaign in 1995, that $17 billion was what should be committed. I would like to know what the NDP thinks we should commit to. We committed to a minimum of $17.4 billion. We know it's going to be $17.7 billion or $17.8 billion in actual expenditures this year to fund health care. I wonder what the NDP thinks should be spent, considering that Mr Pouliot has already said in the hearings this morning that the government doesn't have a control on its expenditures.

1120

Mr Pouliot: The problem with the NDP was never through lack of commitment. The problem stemmed from the fact that we were a little short of currency, of cash to

honour those commitments, but I don't think anyone can question the sincerity of the NDP in making a commitment; I mean commitment big time; serious commitment the NDP can make. It's just that when you project into the future there are some facts, that unless you spell out the rules, unless you change the game, you're going to have to need more money. You can't say, "We're only going to spend this," when you don't alter the fabrics, the rules. If you follow the same rules, that's what got us where it is.

I want to see your restructuring plans. When Ms Jones slips in the bathtub and dislocates her hip — she's 74 years old, she's a little frail — how many days is she going to be in the corridor, or is she going to be in a ward? Those are the realities of it. How many times will she fall off the stretcher? You will be reminded, not because it's easy, because it's the biggest program you have. It's also the biggest risk you have.

You can dislocate all kinds of programs and save a few million dollars. Unless you go to the very heart where the money is, you will not enact the big savings. That's where the money is. The money is in three programs, mainly: You've got health, education and general assistance.

I recall being at cabinet with Ruth Grier and after cabinet was over. There was a series of cuts. We were cutting beds and trying to be more efficient because we felt we were losing control — more acute during a recession — and I asked Ruth, "How will it reflect in your budget?" She said: "Oh, it's looking good, Gilles. We started last year and this year we'll only spend 2% more on health."

So the pressures — you find out that almost no matter what you do, short of really hitting the system big time, you can delist so many drugs — I mean, those lobbyists — and then only do good things, the battle between the generics and the lobbying for the patent, but it keeps going up and up. They're just coming now with a new one for MS etc. A thousand bucks a month is nothing in some cases, and more people are being impacted and so on.

Anyway, I want to wish you well, but you cannot project in 10 years and say, "We're going to spend the same money." Nobody knows how much money we'll be spending unless you have a plan of attack to match the money.

Mr Phillips: Just a quick question maybe of the parliamentary assistant: How much money do we spend on health in Ontario? I know what the government spends, but how much money do we spend on health in Ontario currently?

Ms Bassett: They're saying now $17.8 billion, which is over our commitment to maintaining the $17.4 billion.

Mr Phillips: But Mr Wettlaufer said somebody said we'll be going bankrupt. I think we probably spend $28 billion or $29 billion on health in Ontario. I mean, that's the number. If we spend 10% of GDP, it's $33 billion.

Ms Bassett: Oh, you're talking total spent. I thought you meant the government specifically.

Mr Phillips: Anyway, we're on to a health policy issue. You've decided to take $1.5 billion of health and put it on the property tax. Is this $17.4 billion on top of the $1.5 billion you put on property tax or not? I just don't know what your intent is here in the recommendation. What is the intent of this recommendation?

Ms Bassett: The intent is that $17.4 billion will be spent on health care.

Mr Phillips: By the province.

Ms Bassett: That's right, minimum.

Mr Phillips: Okay. That's interesting. So that the $1.5 billion you transfer to property tax, you'll still spend another $1.5 billion.

Mr Pouliot: When you say the $17.4 billion, the commitment to spend the same, not withstanding contingencies where you throw in —

Ms Bassett: Not to spend less.

Mr Pouliot: Have you factored in the changes in programs, for instance, that used to be under the jurisdiction of another ministry? You lose some and then you take some on. If you were to spend, let's say, $100 on one program, you take on the program and now you only spend $80 on the program. Health is getting bigger, the flirtation with social services, for instance, where as you amalgamate, as you mesh, blend your services, you say: "My God, who dreamed that? That's 20 years ago. There's no need to do that. We'll stop the duplication. Give it to us because we do all the parallel services that go with it." So you latch on, you pick up more services, and yet the budget is being decreased there but it's not being fully increased to you. You have to blend all the complexities of these programs in, so when we say $17.4 million, we know there are three or four programs that did not exist under health two years ago and now they do.

Thank you very much. That's just the caution that I have. You're going to spend the same money. The thing is, health responds to the need.

Ms Bassett: We are committed to spending the $17.4 billion, minimum, on health, so how you factor it out we'll have to — as you say, it's very complex.

Mr Pouliot: But health is not the same person I met two years ago when I answered the ad, when I heard the Common Sense Revolution. I read "health," and then another person comes to the rendezvous. What am I going to do, put the brakes on, step on the gas? It's not exactly the same program. In those things you have to have supporting documentation, otherwise you will be spending the same money. But there are programs that did not exist then under health that do now.

The Chair: Further debate? Are you ready for the question? Those in favour of the motion, recommendation 7? Those opposed? I declare the motion carried.

Ms Bassett moves recommendation 8: "The government should work to ensure small business's access to capital in order to help stimulate job creation."

Mr Pouliot: It was right here, in fact, really on a day like today; it was one of the must painful reactions that this member of the third party had to endure. Oh, I can recall so vividly. It was not a mistake, an error, somebody reading the wrong agenda. It was a member of the government, and what we had is the —

Mr Phillips: Bankers.

Mr Pouliot: The bankers, thank you. Actually, it was a sad state of affairs where I think it was one Mr Brown,

but the record can attest to or deny that, who talked about accessibility to banks.

Mr Phillips: He's lost the battle in caucus.

Mr Pouliot: I had this vision, this horror show of beating a path, a path travelled only too often, between the banker — and I could see Mr Brown with cap in hand asking that the banker grant him the pleasure of an audience and saying, "Will you please give me some money so I can meet the payroll?" I felt sorry for the bankers. I saw them under a state of siege, but not quite.

I said awful things and I regret them, like "a capitalist without capital," that the same Mr Brown had a cash flow problem and did not have the right collateral. But he wanted banking to go back some years and he almost told them that they were a cartel, a monopoly, and yet they said they like competition, especially when they're about to enter the insurance field. Don't change the charter, though.

I'll finish by saying that when I look at this, I've known for some time that they'll take your money and they'll invest it. Those are investors. The fact that they take the money from the savers, put it into a savings account, and then you lend it and then you have a rate of appreciation — that's not the way it works any more. They've lost their purpose that way. They don't want to lend money to small businesses. They tighten up. They say they will, they'll pour in $150 million. Look at their sheets. Look at the way the money goes, the percentage, compared to where it used to be.

Hit them. Hit them big time in terms of mandate. They change the Bank Act every 10 years. They lobby for five years before and five years after. They do a lot of good work in terms of services, but the lack of competition at the marketplace — when you look at the number of those senior institutions compared to the per capita in the United States, you don't have competition in the marketplace. You have a semblance, you have exactly the same thing, which is the reflection to shareholders. Michaud is right and people will be lining up at the microphones in terms of the way those boards of directors bypass those humble shareholders. I hope that some of the rules can be changed so the teachers' fund can take over one big bank. They have enough money.

1130

Mr Spina: I really appreciate the comments of the honourable colleague, because our intention is very much in line with what your comments are. As you heard from some of the presentations, part of the access to capital report that Mr Sampson and I submitted to the minister — and you are welcome to have copies of that if you wish — recommended the widening of competition so that we could change the rules that we have jurisdiction over within the province. We are recommending to the minister that he adopt some or all of those recommendations.

As you know, some of them are controlled by the federal government under the Bank Act that you mentioned. In that regard, that requires further negotiation on our part, but we feel that there were a number of recommendations here that fit right in with this. That's the purpose of this particular motion and that was really what our intention was. So I think we are on the same wavelength, Mr Pouliot, where we want to have a broader range of competitive resources for capital, not only for startup but also for growth, so that businesses can grow and hire employees.

Mr Phillips: You dealt with co-ops and credit unions and stuff, did you?

Mr Spina: Yes, and trust companies, credit unions, caisse populaires.

Mr Jim Brown: Mr Pouliot, I'd like to report that after that meeting I had a great deal of remorse for the way I treated the banks. It lasted for 10 seconds. But I think many of us here share the view that there needs to be competition in the financial lending or giving of capital to small and medium-sized enterprises.

Just for the record I'd like to point out that in the United States, which has 10 times the population, they have something like almost 20,000 competing banks, and if that were the case in Canada, we'd have 2,000. We only have five or six, so we definitely have to do something. The federal government seemingly takes its time in changing the Bank Act to increase competition, so we have to look in Ontario to increase competition.

The Chair: Is there further debate? Are you ready for the question, recommendation 8? All those in favour? It's unanimous.

Ms Bassett moves recommendation 9: "The government should work to promote youth employment."

Mr Pouliot: What is it? When all is said, if everything was factored in, I think it's between 15% and 20% of young people, yet I turn around and I read in the newspaper that the federal government has committed to, if not easing, encouraging people with certain expertise, because in the Ottawa region alone 2,000 jobs are going begging; perhaps 20,000 across Canada where there are no takers. People don't have the tools, the qualifications.

It's mostly centred in the alliance of — I'm trying to translate here — the high tech, the robotics and computer science. They'll take anyone; 20,000 jobs open and yet people do not have the — but this is a problem. When you say to young people and encourage galore: "Go to school. Do this, do that."

"Well, I won't have a job."

"At least if you have an education, you have a better chance. Think. If you don't have an education, then you really won't have a job."

I'm happy to see this, and I think you will get kudos for that. People will applaud that when they see that they've got to encourage. There's nothing wrong with doing some of the jobs, apprenticeship and so on but, for their effort, there has to be some reward or some good chance of reward, and it's a tragedy for all of us in a country like ours when you see close to 20% of our young people without a permanent job. I support recommendation 9.

Mr Wettlaufer: I'd like to follow up on my colleague Mr Pouliot's comments. One of the concerns I have had for a number of years is the education system perhaps not giving the youth what it needs. As you are probably aware, my riding is situated in what is called Canada's technology triangle, and I just heard last week that some of our industries are having to go outside of the country, to Europe and to the United States, to obtain employees

because we don't have enough graduates in Canada to meet the demand.

I know from personal experience that there is a great deal of competition within the universities' faculties. If they get good students applying to a given university, there is competition within those faculties to have the students go to one faculty or another for the major, instead of advising that student to go into the areas where there will be demand for jobs in the future.

Now, we heard during the course of the hearings the last few weeks that many of the universities and university professors feel that they also need to teach the student an awareness of life, of the arts and what have you. I don't disagree with that, but I believe that we have to give them adequate training in the areas in which there is a demand for jobs. If we have a demand for 20,000 in the high-tech industry, why can't we meet it, for instance, within our own country? I think perhaps in promoting youth employment it may be necessary to sit down with the various universities and try to address this problem.

The Chair: Further debate? Are you ready for the question? All those in favour of recommendation 9? Unanimous.

Ms Bassett moves recommendation 10: "The government should promote the startup and growth of small and medium-sized enterprises in order to encourage job creation."

Debate? Are you ready for the question? Not quite, apparently.

Mr Pouliot: I'm buying time for our recommendation to come here. You're already under some other proposals: "Should promote the startup and growth of small and medium-sized enterprises in order to encourage job creation." I have heard that for some time, but not wishing to prejudice the style, sometimes I tend to go over it too quickly and not give it the attention or the thought that it deserves because it begins to resemble family values, peace, harmony, love.

I've heard it before: "Should promote the startup and growth of small and medium-sized enterprises in order to encourage job creation." Maybe the conglomerate of wealth across, people who dwell with this on a daily basis, can inform someone like myself, what is the rate or percentage of insolvency, bankruptcy? If all of us were to start a small business — we're not there yet, but let's say a small-size enterprise; I take it that's small business — what percentage of us would not be around when we meet again in two years or three years, for all kinds of reasons? What's the rate of bankruptcy?

1140

Ms Bassett: I just want to remind Mr Pouliot — you said you didn't want to be negative — we were trying to be positive in this in that so many presentations made to us were pointing out the need to give money to small businesses and medium-sized businesses to start up, because a lot of people think, "Hey, you're not going to make it; you're too small." Banks feel they're not in the business of taking on a lot of risks, as our friend Mr Brown has pointed out, so that was the intention behind this and we felt it merited a point on its own.

A lot of the figures recently show that new employment and youth employment are coming from very small businesses that are not tremendously sophisticated, that have every chance and are being successful. They do need startup money, so that's the intention behind it.

Mr Pouliot: Madam, I have a lot of respect for you. I therefore find it quite difficult to be negative, but those were your words, not mine. More importantly, when we go back to encourage — and I'll express myself more clearly. Every government became sensitive, through representation, and tried to put their best foot forward. Not at every opportunity did we know what we were getting into. We all agreed that's where we got our first jobs, most of us, be it a summer job or a job right after high school, is with small enterprise. They're really the backbone of job creation.

I'm just wondering, when we do that is when someone comes calling. I recall the flow-through system; I recall the R&D. Where we're still looking for the money, as citizens. About the best, you just said, may be eight out of 10, seven out of 10. That's not being negative when you're investing the people's money. I'm just wondering. As a taxpayer I will want to see, is this the best way to spend it?

We can go into one resolution under number one, a student loan. Dr Grant has passed away; Dr Loan is barely alive, because you never get the money back, or you only get a portion. The rate of default is 20% among those people. They just don't have the dineros, the ability to pay back. When we say we do this, we're getting to the small and medium sizes. I don't wish to be negative, but I don't want to get taken.

Ms Bassett: You won't be taken.

Mr Jim Brown: Mr Pouliot, you must understand that it's not just small enterprises that go down the toilet. Most notably, in the last few weeks there are a couple of very large ones, so I think it's the state of the economy, why that happens.

I think too that when we talk about this recommendation, we're talking about money, we're talking about rules and regulations, we're talking about perhaps incentives. When you mentioned the R&D, a long time ago when those R&Ds were around, they generally went to big guys and not the little guys. We're talking about mom-and-pop operations, we're talking about family operations, and these are the people who generate all kinds of new jobs, especially for youth. New enterprises generally tend to hire younger people who don't have all the experience. That's how they're going to get experience and that's how we're going to put people to work.

If you're arguing that we shouldn't adopt this recommendation, which I seem to be getting out of you, that you're not supporting this recommendation to support small and medium-sized enterprises, the mom-and-pops, the small family businesses — I'm astonished that you wouldn't support this recommendation.

Mr Pouliot: Then you're astonished. By the way, let Timothy rest in peace, not turn in his grave. They should have exercised the same — the banks, that is — due diligence as they do elsewhere. They wouldn't be in the mess they're in. But they said they were over-retailed anyway and didn't pay close enough attention to the business. I'm just saying value for money here, that it's not sometimes a matter of money; it's chance at the marketplace.

It has often been said in the United States that it's harder to get into business but it's easier to stay in business. It's not difficult to get in business here, but it's harder to stay in. If you have the ability to graduate readily to the medium size, then you have some economy of scale and some niche. But unless you're exactly that, unless you're well-niched and specialized, you just don't go and start a business.

I'm not used to grade B chicken, so how am I going to open a restaurant and compete with everybody else around who has been a restaurateur — a tough call — for a lot? Every time there's a budget, I see that, and I see some little bit. The thing is the marketplace is not going that badly, but there's still a lot that needs to happen. To take the job — you're not suggesting that — of the bank, that since it's difficult to do this they're going to come to the government, in fact the government should be even more careful, cautious, about the way it parts with public money than a supposed lending institution.

Mr Jim Brown: I think in this recommendation there's more than just money.

Ms Bassett: I was just going to say there's nothing in this recommendation necessarily about giving taxpayers' money. There are lots of ways of encouraging that the government can play a pivotal role. While we appreciate your warnings — I think those are well-founded — we want to make sure that it's not going to be handouts, necessarily.

Mr Phillips: I wanted clarification of something said earlier, that part of your plan here is financial. Is that right, financial assistance?

Ms Bassett: Not necessarily.

Mr Phillips: Hansard I think would show that — I thought both of you said there would be other assistance, but part of it would be financial assistance.

Ms Bassett: No, what I pointed out —

Mr Phillips: So it won't be financial assistance?

Ms Bassett: No. You're twisting words. We said the problem with small businesses and medium-sized business is getting access to money. So there are different ways of ensuring that people get that access to money. It doesn't mean necessarily you're going to give money. You could.

Mr Jim Brown: Other people's money, not taxpayers'.

Mr Phillips: I'll review Hansard, then. I just thought when you were explaining —

Mr Jim Brown: Actually, if you review, Mr Pouliot, he —

Mr Phillips: No, I was listening to Ms Bassett, who was explaining what was intended here, and I thought she said —

Ms Bassett: Access to money.

Mr Phillips: I'll review Hansard. Thank you.

The Chair: Is there further debate? Are you ready for the question? Recommendation 10, all those in favour? It's unanimous. I declare the recommendation carried.

That completes the government list. Since we have one hour for lunch, is this a good time to take that break? We'll return at 1 o'clock. I would ask the committee to be prompt. Mr Pouliot, would you have any estimate as to when you might expect your recommendations?

Mr Pouliot: As we speak, we have a full-time, one third of a person working on it, so hopefully it will be early this afternoon.

The Chair: Thank you very much. The committee stands in recess until 1 o'clock.

The committee recessed from 1149 to 1303.

The Chair: I'll call the meeting back to order.

Ms Bassett: Mr Chair, could I make a comment when you get to taking comments?

The Chair: We were going to move to the Liberal recommendations. Are there any comments before we do that?

Ms Bassett: Yes. I don't know whether you want to deal with it now, but I just want to follow up on something that Alison said about we have to be sure that the expert witnesses be identified by name and not by company, and it has to be voted on. Do you want to do it now or later?

Ms Drummond: This issue hasn't come up before and I'm not certain —

The Chair: I thought we had dealt with that. Had we not dealt with that? I believe that has been dealt with by the committee and they will be identified by individual —

Ms Bassett: I thought we had dealt with it.

Mr Pouliot: On a point of clarification: expert witnesses meaning everyone who extended the courtesy, not only people who abide by the mantra and who happen to be in the same philosophical spin as the government. Expert witnesses, in my interpretation, is everybody who paid us the compliment of their visit. They're all expert witnesses.

Ms Bassett: No.

Mr Pouliot: Are you talking about the first list of —

Ms Bassett: The invited experts.

Mr Pouliot: Yes, the ones with titles.

The Chair: They get an hour's time, yes; those who had the extra time.

Ms Drummond: Is this a change that people want in the format of the report, starting on page 4, that instead of "Scotia Capital Markets," Michael Manford would be identified as "Michael Manford." I'm not certain of the direction I'm getting here.

Ms Bassett: Yes, instead of on page 4, "Scotia Capital Markets," we would have to say "Michael Manford," and it would be him you would put, and then when you identify him, "Michael Manford from Scotia Capital Markets," that's fine.

The Chair: Is it all right the way it is? I think that's been done, that they have identified both the company and the individual.

Ms Bassett: We're finding we're running into some trouble with "Scotia Capital Markets" at the top. We should have "Michael Manford."

The Chair: Comments?

Mr Pouliot: We're not into name-dropping. If it's going to satisfy the majesties from the government side, we'll acquiesce with that. We're flexible.

The Chair: So we're going to identify the individual by name and then later in the body by company. Is that the recommendation?

Ms Bassett: Right under, yes, so it's just the headings we're talking about.

The Chair: Just the expert witnesses. Are we all in agreement to that? Any opposed to that?

Liberal recommendations: Mr Phillips, I understand you would move this list. We could start with number 1: "The government must agree in its budget" —

Mr Phillips: Let me also ask if we could move another recommendation, and it really comes from last year's recommendations, just at the risk that if I can't get agreement on my other ones, at least get one in there.

You remember that last year the summary of recommendations from the report, which I think the government members agree to, said: "Job creation is an important criterion against which the budget is measured. The government should honour its commitment to create 725,000 new jobs."

I wouldn't mind that being almost recommendation 1. It's not written there, but I had thought when the government brought forward its recommendations it would be part of the recommendations and it wasn't. Is everyone clear on what I'm saying here?

Ms Bassett: You want to add a recommendation.

Mr Phillips: Recommendation 1.

The Chair: Would you read that again, Mr Phillips?

Mr Phillips: It's actually from last year's recommendations that the government proposed.

The Chair: Which number?

Mr Phillips: It was number 6 last year: "Job creation is an important criterion against which the budget is measured. The government should honour its commitment to create 725,000 new jobs."

It's just that I'm fearful I might not get agreement on all my other recommendations. I'd at least like one of them in there for sure. Is everyone clear? I didn't have it typed out.

The Chair: Debate? Recommendation 6 from last year has been moved. Is there discussion? Are you clear on the motion? Are you ready for the question?

Mr Hudak: I'll enter the debate on this issue before the question's posed. I think Mr Phillips and most members of the committee are agreed that job creation is a priority for this government. Most of the deputations before this committee spoke about job creation. I'd say a good percentage of the recommendations talked about — whether it's their sector across the economy as a whole, whether individual companies or broad-based — job creation was their goal and they wanted to see government economic policy, whether it's through the budget or through regulation, related to job creation, and not just in the short term, but long-term economic job creation.

Among the recommendations moved and passed this morning, every one, either directly or indirectly, relates to that same goal. When I look over the Liberal recommendations to the SCFEA hearings, the top four relate to job creation.

1310

I'm not sure if the committee can come to some agreement, but I don't disagree with the gist of Mr Phillips's recommendation in that the recommendations of this committee to the finance minister for the upcoming budget or any other moves by ministers in the near future should relate to job creation, towards fulfilling that target that was enunciated in the Common Sense Revolution and the election of June 8, 1995, to help the economy create 725,000 jobs throughout its mandate.

Perhaps there's a way of coming to some sort of agreement that policies recommended to the minister should relate to job creation with an emphasis, I think, on small and medium-sized enterprises, as we had in number 10. I don't think we're that far apart in terms of agreeing on that kind of recommendation.

Ms Bassett: Can you read the recommendation again, just before Mr Pouliot —

The Chair: "Job creation is an important criterion against which the budget is measured. The government should honour its commitment to create 725,000 new jobs between July 1, 1995, and December 31, 2000."

Mr Phillips: Actually, I didn't put "July 1 to December 31" when I read it, only because the Common Sense Revolution talked about a five-year plan and that's I think five and a half years, so I just ended it at "725,000 new jobs."

Mr Pouliot: Speaking and addressing it in support of the resolution, as I mesh what the government's agenda and resolutions this morning said, there was a lot of focus on jobs, a realization that jobs were perhaps the cure to many, if not all, economic ills.

It's the very core of the program and, yes, the government should honour. The member opposite might say, "We're not very far apart in wishing." The key here is that we are very far apart between the commitment of 725,000 jobs in a period of five years — and I won't haggle over July or August 1. They could have said any number. The thing is, most of them have a better chance of becoming the emperor of China than they have of creating — this is an administration that says: "We create a climate. The marketplace will give us the results of more employment." Governments don't create jobs. That's what they say. Nor should they be held responsible if there's a shift or an economic downturn where they have little control, if it's global. If it hits the United States, there's no question, everyone will agree, that to some degree we will suffer.

This present government has committed to creating 725,000 jobs. I have yet, and I've searched long and hard, to find in what sector, under what conditions, given what — it's not that. They could have said 800,000 or 600,000. The thing is it is highly unlikely, and we wish you well, unless there are some developments that are unforeseen. If you take out all your figures, the presenters, even those who were the most optimistic and you use the multipliers — and maybe that's not the question. As long as you're going forward and you're achieving lots, I must support because, I'll be candid, I'm a member of the third party, critique, opposition, there to challenge and to make them do the best. But if I take all the prognostics, all the forecasts, and you use the multiplier in the true tradition, you do not arrive at 700,000 because it does not generate that many jobs in that short a term. The mathematics simply are not there.

While there's nothing wrong with that, if you help create a climate that will create half or three quarters, this is good, but I can't resist the temptation, resist no longer,

the promise is too seductive to let — the promise won't be there tomorrow, they'll have different spin doctors, a different visage. But let me assure you of something, I hope they do, but I would be very, very surprised, however happily, if you came up with 500,000, with two thirds of those jobs. You should go out and celebrate; it will be cause for a celebration. Because even if the economy goes up by 3.5% or 4% it does not generate, in that short a time, 725,000 jobs.

I support Mr Phillips' resolution that they should honour the commitment. They said it. They're on the hook. They're the people who tried to seduce, sold opium and then cheap drugs to the electorate. Let them live up to their commitment. I support the resolution. I think they will too.

Mr Spina: I'd be prepared to support Mr Phillips' resolution with perhaps one tradeoff, and that is that I think items 1, 2 and 3 in his jobs list would be deleted, understanding that this first principle covers all of them.

Ms Bassett: I would support that.

The Chair: Mr Phillips, do you have a comment on that?

Mr Phillips: I don't see the logic. Each of them are in and of themselves separate. You can support one, and if you agree with the first one you just simply — you've got the numbers — vote against the other ones.

Mr Spina: I would think that going along with the new one you've just introduced — these items 1 to 3 are essentially more detailed items that I think would be very much in line with striving towards achieving that 725,000, and the flexibility then is with various policies to achieve that. As Mr Pouliot says —

Mr Phillips: Well, you voted for it last year. If you want to vote against it this year, that's your own prerogative. You can do what you want to do.

Mr Spina: I'm just asking if we would wipe out 1 to 3 and assume they are sort of covered under this one. We're willing to vote for it obviously. We voted for it before.

The Chair: Further debate? Are you ready for the question?

The motion reads: "Job creation is an important criterion against which the budget is measured. The government should honour its commitment to create 725,000 new jobs."

All those in favour? Opposed?

Mr Spina: On a point of order, Mr Chair: I'm trying to determine whether — I guess I perhaps should have put it in the form of an amendment, should I have not, my suggestion about incorporating items 1 to 3?

The Chair: The recommendations on the Liberal list, 1 through 3, are not before us. We are dealing with their added motion.

Mr Spina: With this first motion, yes. What I had proposed was that items 1 to 3 would be deleted in favour of the overall encompassing motion Mr Phillips proposed.

The Chair: I heard you make that proposal and I didn't hear Mr Phillips accept it.

Mr Phillips: All I said was that we're voting on something you agreed to last year, and then the government, if you don't like the other ones, the way the thing is set up, you vote against them.

The Chair: He gave you the option of defeating them individually, I believe.

Mr Spina: Thank you. I just wanted to clarify that. I guess we'd better call the vote then, call your question.

The Chair: I think we already have done that and I have but to declare on the voting.

Mr Pouliot: On a point of clarification, Mr Chair: Perhaps someone would read what we just voted in favour of. Do you want to read the resolution for me again?

The Chair: The resolution that has been all but passed in front of this committee reads as follows: "Job creation is an important criterion against which the budget is measured. The government should honour its commitment to create 725,000 new jobs."

Mr Pouliot: Thank you. So this is final, the vote has been taken on that and passed?

The Chair: I have not declared it as passed as yet. Is there any objection to me making that declaration?

Ms Bassett: None.

The Chair: I declare the motion passed.

1320

Mr Phillips: The next proposal is number 1 under "Jobs." What we're trying to say here is that governments, of all political stripes — once they get halfway through their mandate it's very difficult to acknowledge there's a problem with something like this. You get into a period where unless you say it's a problem you won't, in my opinion, deal with it. I'm trying to get an acknowledgement that so far, for whatever reasons, the job creation hasn't been there at the rate that all of us had hoped. If we simply assume it's going to go away without any special effort we're making a mistake.

Mr Pouliot: I concur entirely. What you will see here in the third and the fourth year is an ensemble of lame ducks and duckettes. As they get closer to the election the principle and the promises will be gone: "Never mind what I said before. More important, how do the people like it?" Their knees will get weak, they will begin to vacillate, they will begin to stoop. That's the lot of a government that has gone too far out on a limb.

To give you an example, very briefly as I await our presentation, you shall notice — and you're already seeing it now: "About welfare, give us another chance," as they massage Mr Mundell through the Association of Municipalities of Ontario. Now we don't know where we live. We don't know who's going to take care of long-term care any more because they've sweetened the pot. In seven short days, a shortfall of $900 million became $1.8 billion. "Oops. Sorry for the mistake." A $900-million mistake in simple accounting. They don't know. We ask the question, what is the cost of this? It's a mess out there. They're backtracking already and the backtracking will cost them well over $1 billion.

They're making commitments left and right. They're getting rid of valiant civil servants, and it's difficult to get figures on how many consultants have been hired. You don't quite get that because it's in the private domain.

I believed everything. Maybe it's my nature. I said: "Well, it's the government. They're duly elected. They're going to do this and all that." I'm not one to be negative nor suspicious in the least. But even with that good disposition, I am at the point where I'm beginning to have some doubts about those people. I think some of them are not telling the truth; I'll go as far as that, if I may be so bold. Excuse the expression, but heck, I think I'm about to be deceived and disappointed one more time.

Mr Hudak: As a member of the committee I disagree, especially with the last part of the motion, because I think we heard some very convincing and comprehensive presentations by various deputations before this committee that said the plans the government has are the best ways of going about the job creation problem. I think we heard very strongly — at least most convincingly to me — that we should steer the course in terms of the plans that this government has set out. Perhaps I could move an amendment to this motion to change the end and say the current plans are the best way to solve the job creation puzzle.

The Chair: And the amendment is whereabouts?

Mr Hudak: Chair, on sober second thought, just because of the dual nature of the statement, I ought to pull back that amendment for the time being to see if anybody else has something planned.

The Chair: Further debate? Are you ready for the question? All those in favour of the motion, raise your hands, please. All those opposed? I declare the motion lost.

Number 2?

Mr Phillips: The second one is obvious, I think.

The Chair: "Make solving Ontario's employment problems Ontario's number one goal in the budget. We in the Liberal caucus continue to believe that our most important priority is to make certain that all Ontarians have an opportunity for employment."

Debate? Are you ready for the question? All those in favour of the motion? Opposed? I declare the motion lost.

Mr Phillips: The third one is — do I need to read these, Mr Chair?

The Chair: I think they should be read into the record, yes, or I'll read them in, whichever you prefer.

Mr Phillips: I can do it.

"Challenge the key players to propose solutions to the problem and include these proposals in the budget. We all understand that this is an extremely difficult problem, but we must solve it. The government can play a key role in getting the business community, other levels of government, the public sector and unions working together to look at creative and innovative solutions."

There are ideas out there, some in the private sector. There is an innovative program around internships going on right now. There are organizations that are looking at creative things. The union movement has some creative ideas.

I predict to you that within six months the government will be forced to do this anyway. They'll have a Mike Harris job summit, and he'll be sitting on some throne somewhere with a big sign behind him. They'll do it, because the problem is not going away. I just think there's an opportunity for the committee to look like we've encouraged the government to do what I think they're going to do anyway.

As I say, there are probably dozens of good ideas sitting out there right now and, to use the jargon, by pulling the key stakeholders together, we could find them very quickly pulled together and the government can pick and choose the ones it feels are most appropriate and move on them.

The Chair: Further debate? Are you ready for the question? All those in favour of the motion? All those opposed? I declare the motion lost.

Mr Phillips: The fourth: "The government should put the same energy and priority in the budget on solving the unemployment problem as they have on attempting to solve the fiscal deficit problem." It's probably self-evident.

Mr Hudak: Really quickly, first, I just don't follow the logic of the argument in that I believe deficit reduction is intricately linked to job creation. Long-term job creation depends on a comprehensive plan to balance the budget by the year 2000-01. When you dedicate a lot of energy to reducing the deficit and balancing the budget at the same time, you are directly putting the same amount of energy and priority to job creation. I see them as linked, so I just have some questions on the logic of the argument.

1330

The Chair: Ready for the question? All those in favour of the motion? All those opposed? I declare the motion lost.

Mr Phillips: "Downloading": This is a package too. I think the government's going to find it's made a huge mistake in this area. Our caucus travelled around the province. We were in 10 different communities, 11 different hearings. We heard from well over 200 individuals, most representing some significant organizations. Without exception, literally without exception, they all feel the government has made a huge mistake in moving long-term care, child care, health, social housing and social assistance on to the property tax. I know there are some groups trying to patch it together right now, but in our opinion, there's only one solution: The decision has to be revisited and completely rethought. These four recommendations do that.

The first is to urge in the budget that the government not proceed with its plans to do this. By the way, that whole issue — as we saw this morning, $1.5 billion of health care spending has now gone on property tax, and I don't think the government is still planning to spend $17.5 billion on health in addition to the $1.5 billion that's been moved over to property tax. I'm not sure where that money is going to come from.

The first recommendation is: "The government must in the budget reverse its decision to download social assistance, long-term care, social housing, child care and health on to property tax. The government's decision has been a major mistake and everyone who has looked at the decision believes it would do serious harm to the province."

The Vice-Chair (Mr Tim Hudak): Debate? There being no debate, I'll move the question. All those in

favour of Mr Phillips's motion? All those opposed? I declare the motion lost.

Mr Phillips: The second one: "The government must examine the alternatives, including the government's own Who Does What panel's recommendation on how to deal with the download. The government should return to the recommendation of the Who Does What panel since it was that group who have developed the most comprehensive plan for restructuring responsibilities."

By way of background, you're probably familiar with the fact that the Who Does What panel unanimously recommended quite a different approach. They had it all spelled out in considerable detail, arraying the disentanglement, and it was revenue-neutral. It was, I thought, a well-thought-out proposal that, for whatever reason, the cabinet chose to disregard and to take a very different approach. If you return to that as the basis for the solution rather than — what I'm fearful of right now is that they're going to try to put a bandage on a fundamentally flawed recommendation.

Mr Spina: Part of the problem with engaging in the Who Does What recommendations here is that by the time we get to a budget, these legislative issues will have been resolved with amendments. As a matter of fact, when Mr Phillips talks about the Who Does What panel recommendations, as a result of some of the discussions, the public hearings that have been taking place, I know as we speak that there are amendments being proposed via the committee process that will be brought to the House on April 1, more than a month, probably, before the budget being released.

So this is an academic discussion. With due respect to Mr Phillips, I don't think we have to get into this right now. Obviously, I would oppose it.

Mr Phillips: I'm curious about where the public hearings are going on, because I wouldn't mind going to them. Where are these being held?

Mr Spina: They went on.

Mr Phillips: Where?

Mr Spina: On the Who Does What? You had two weeks of hearings.

Mr Phillips: On the downloading of the social assistance and child care and —

Mr Spina: A series of Who Does What bills are right now in hearings, this week and next week, and some of them will be coming forward to the Legislature. Right now, social justice, for example, is talking about the policing issue. That's a Who Does What issue.

Mr Phillips: I don't think I mentioned police in here.

Mr Spina: No, but I'm just saying —

Mr Phillips: I feel really angry about the fact that there isn't a public debate on downloading social services, child care, long-term care. The only committee that tried to deal with it —

Mr Spina: The social justice committee is in Ottawa right now, as we speak.

Mr Phillips: On what?

Mr Spina: On these Who Does What issues.

Mr Phillips: I'm sorry, they're not dealing with what I just told you: social assistance, child care, long-term care, social housing. There's zero public debate. It's a scam. It's all going on behind closed doors. This is the only committee that has had any opportunity even to comment on it. I guess we have a fundamental disagreement.

The Vice-Chair: Any further debate on that motion before the committee? Then I'll call the question. Mr Phillips moves motion 2 on the Liberal recommendations concerning downloading. All those in favour of the motion? All those opposed to the motion? I declare the motion lost.

Mr Phillips: The third one is: "The government must provide a comprehensive analysis in the budget of the total impact of any proposed changes. A constant theme across the province is confusion about what all this megachange means to individuals in Ontario. The government must provide an analysis of the combined impact of all their changes so we can all understand what Ontario will look like when the mega-changes are fully implemented."

I go back to the fact that without exception, when we were talking to the mayors and the reeves and the regional chairs and councillors and community groups, they unanimously told us, "The government has not given us any indication of what all this is going to cost us." You may recall that we tried to get that from the government through a resolution in the House, which was refused. What better group than this group to be saying, let's have the information on what it's going to mean?

We had a debate this morning around health care. The government told us that the province is going to maintain $17.4 billion of spending. There's going to be an extra $1.5 billion of health care spending on property tax, so that was an increase this morning, I gather, of $1.5 billion on health care. I'd like to see the government spell that out in some detail. I found that useful this morning; that's the first time I'd actually had it clarified for me that it was going to be $17.4 billion in the provincial budget and all the municipal property tax spending was incremental to that, not replacing it. I just think we need that full impact analysis.

Mr Pouliot: No one could have said it better than Mr Phillips. Two weekends ago I attended the annual meeting of the Thunder Bay municipal league, which is made up of small municipalities around the city of Thunder Bay. The keynote address or presentation was that of representatives from the Ministry of Municipal Affairs and the Ministry of Northern Development and Mines. I'd say 17 to 20 small towns, municipalities, as part of the league were at the meeting and were very intent on listening.

Overhead charts were produced, and those mayors, reeves and council members asked: "What is the cost of ambulance service in my municipality? Are we talking about operating cost or are we talking about capital cost, if we need a new ambulance? What will be the cost of policing? What will be the cost of drug programs if you happen to be on general assistance?" They're to pick up 50%. "What about the cost of sewer and water, both operating and capital? What about transfers of this portion of road with the exchange, with the trade-off being a capital grant?"

It went on and on, and I would say 15 or 20 of the most legitimate questions — because it became a matter of money, who pays for what. No one could come up with a cost.

1340

When you don't know and when you're a few short months before the next municipal election, you have two things to reconcile. Among other things, you have to say, how much will it cost? As I prepare my budget, the fiscal year is different than the province. Then, what do I know about these new subject matters that I'm about to embark on and I'll have jurisdiction over? So if you have five or six major items that you're familiar with, you have some continuity on council and the clerk-administrator is helping a great deal etc, then you find out that you're about to take over, in a few months, some jurisdiction which you know little about. Well, the positive doesn't win in this kind of environment. If you don't know, you tend to say no. Anxiety leads, if not to fear, to certainly more questions, and sometimes you stop being fair. You stop listening as well, and rumours take on extraordinary proportion.

In fact, in some cases, people have said: "Haven't you heard? We're to be amalgamated but we're to do it voluntarily, and after that, if we are not, then we will be forced to amalgamate." It was a world of confusion and there were many, many big-cost items. The township of Schreiber saw its increase more than 100% in taxes because they're so small, they have no industrial base. They have a very small commercial base and the residential base is a lot. But you see, in that town of only 1,900 people, there are 40 citizens who are over 80 years of age.

Yet the irony of it is that you have, nine miles apart, 14 kilometres away, the striving small community of Terrace Bay; yes, the one that wishes to join Manitoba. What they said is: "Look, please hear our voice. Tell us what it will be like." They're not about to leapfrog Manitoba and Saskatchewan to go to Alberta. I don't say this because of the government as much as the lack of sales tax. So they would even contemplate going to Manitoba: "exploring the possibility" said the resolution.

People feel that there is an awful lot on the plate. They admire the courage of people who say, "Well, let's change." But a lot of it is webbed and it's meshed, and it's important that we know the approximate cost factor. We don't even know which funds are established, what is the accessibility to the fund, and you're pressed. You know very well that come November — our fiscal year is in April. Theirs starts in January. They have to go to an interim tax levy, which is half the previous year, but it becomes irrelevant in the final analysis. When they come to the last levy, it reflects the extraordinary. The ordinary is what you had known from the previous year, but now you've got all the residual of what you don't know and the new costs and it's all going to happen at once.

I know they're impossible questions. We're all asking the same questions, but it's a tough call for small municipalities. I don't know if you should get on board. You're going to get on board anyway. You'll do as you're told, and it's not all bad. By the same token, we don't know in Manitouwadge the cost of this, not because people don't want to tell us but because they cannot add it up fast enough.

Ms Bassett: I'd just like to point out that although we are moving into a new area, we have as a government released figures about the possible cost in the exchange of services. Not everybody would agree with the figures. That's fine. But we have released figures. We do have contingency funds to help municipalities cover unexpected costs. We are in the process of fine-tuning. As always happens in any new venture, you can't dot every i. You have a grand plan and you move towards it. I can assure the municipalities that they will not be left stranded.

Mr Pouliot: This cannot remain unchallenged. When people perspire sincerity — well, if people aren't sure, at least they should say it with confidence. Some people do it with a great deal of poise and with some confidence. But from the recent track record, and it's not so much a criticism as an observation, you know what you're doing on the grand lines, but when it comes to the finite — and I know you can't dot every i — can you blame us for saying: "Ahem, excuse me. Look at the discrepancy. Now we don't know about this and that"? Maybe "mess" — I'll withdraw that. Maybe "mess" is exaggerated.

But can you blame me for sensing that there's one heck of a lot of questions there that are yet to be answered? You're going to get into May, you're going to get into June, you're going to work very hard to have other people in the civil service working in July and August, and then you're going to come to an election call, then you're going to come to the election, then implementation on January 1 on a broad, broad front. You are fighting many, many battles. There are no two situations alike. You don't have an analogy to draw from that has validity. This is not a homogeneous situation. Then you risk being consumed by the big seige, that of the city of Toronto and the surroundings. There are 800 others that are going to be victimized. They're asking questions, yet to get the answers.

What I'm saying is, you can sit with a great deal of confidence, just the right amount of mannerism. The thing is, I'm sceptical because you've not only changed your mind as a government, but the discrepancy in numbers was not a bagatelle. It was consequential, it was very large, which led me to believe that this thing is haphazard at best in some sectors. The intention is immaculate; no question there. But in terms of the transition and the delivery, because of the complexity of the situation, the timetable that you're under, you're placing yourself under a state of seige. People voted on amalgamation — no. People voted on not knowing, on the anxiety out there. It mostly turns to the negative in our endeavour. They voted on the downloading. Downloading became —

Interjection.

Mr Pouliot: No, the transfer of powers became sort of a downloading. It's like somebody who doesn't want to move to the suburbs talking about urban sprawl and prejudicing the case by expression. So beware. I don't deserve that kind of facile, gratuitous comment when I too am asking questions on behalf of Manitouwadge and they're not given. "Trust me. Be happy." I will have the answer, but it's not the best sort of concoction. I think you picked that one off the shelf and you put it into a

saucepan. This is not the most palatable of things. We're about to miss the boat.

We want some answers. We want direct answers: How much is it going to cost? How is it going to affect Ms Jones in Schreiber? Are you going to pick the last dime, the last nickel, the last penny out of her wallet, out of her purse? We want to know what her future is.

The Chair: Further debate? Are you ready for the question? All those in favour of the motion? Opposed? I declare the motion lost.

Mr Phillips: "The government must slow down and invite Ontarians to participate in what the government plans to do to them. The government is now moving well beyond anything promised in the Common Sense Revolution and the government has no authority to ram its plan down Ontario's throat. If the government wants to fundamentally change Ontario, in a way never articulated in the Common Sense Revolution, there is a necessity to provide Ontario with an opportunity to participate in that decision."

Just by way of background, firstly, the Who Does What panel fundamentally disagrees with what the government's doing here. As I said earlier, our caucus talked to 200 groups and individuals around the province who say it's a big mistake. If you had run on a campaign, if you had told senior citizens that their long-term care was going to be contingent on property tax, I can assure you that there are a lot of seniors in my constituency who would have been very upset about that, or if you had told them that social housing — and remember, a majority of social housing is seniors' housing. When you look at social housing, that's who you are talking about, putting their housing on to property tax.

The government made that decision. I don't know whether your caucus was consulted on it or not, but suddenly it came out of nowhere, much to the disappointment of organizations like the board of trade, like AMO, like the Who Does What panel. Now we find that all of the discussion is going on behind closed doors. There's absolutely no chance for seniors to participate in the discussion: Is this a good idea or a bad idea?

1350

It's all being done — I think there's a meeting this Thursday — behind closed doors, just negotiating this stuff without any public input. That's wrong, in my opinion, dead wrong. As I say, there's $1.5 billion of health care going on to property tax. All of these seniors' homes that right now are funded by the province are going to be put on to the local property taxpayer. Eventually I think there's going to be a revolt around the thing, but at the very least we should say, "Let's give people a chance to express their view on whether this is a good idea or a bad idea," and not simply turn it over to some politicians to negotiate around not whether the policy is good, but just around the detail of how we're going to divvy this thing up. That's the purpose of number 4.

Mr Pouliot: Recommendation 4 under "Downloading" is again a reminder. The first line says, "Slow down, you're going too fast." We're to the point where people are beginning to ask, "Will it matter more who governs, what policy, or will it matter just as much, if not more, where you live?"

This is not revenue-neutral. As bold as the administration may be, as new as they pretend to be, as fresh as they would like us to believe they are, I doubt that any democratically elected government would attempt to do so many in-depth, serious changes if it were revenue-neutral. The risks are immense. What if it doesn't work, all this? What if you antagonize more people than you make friends? Why, if it's revenue-neutral? Why don't we piecemeal it?

This is not revenue-neutral. It said it was going to be $1.4 billion or $1.5 billion. What's happening is that the more predictable cost, that of education — and it makes immense sense to have it from the public purse — in lieu of that, you pick up a mishmash, an ensemble of services. It seems that if the adding machine says you're $400 million short, it says, "Okay, $400 million? Give me a program that resembles $400 million and I'll throw it into the hopper, the balance, and see what it does." Now we're about $1.5 billion, $1.7 billion short.

I was surprised when your mentor, Mr Eves, in his mini-declaration — because we were waiting for a budget but they choose to separate the good from the not-so-good news — made the commitment to have the same transfer payments towards education. We were expecting, I know our caucus was, anywhere from $750 million — a wide margin — to $1 billion.

Then we dreamed this scheme, that not today but in 1998, when you can have them in front of you, when education is your responsibility, you are the employer — and I've made the point to remind people; hopefully I'll be dead wrong. When you can no longer resist the lure of $43 billion in the teachers' superannuation plan — this is something — and then find that you have to fork over, to pay, anywhere from $350 million to $500 million in the plan each year, will you still choose to see that $500-million responsibility as your responsibility, or will you plead that all actuarial figures point that no matter under what, for the next 35 to 50 years they will be able to meet their obligation that there is no unfunded liability?

The plan has been doing so well because of the rising market, being genius, and to withdraw the right to — to withdraw your labour or, if so, to legislate them back. So tell them to get used to charter, a model where you'll have all the grey matters, those who suffice to test the best so you don't fall flat on your face, in the alternative. Then you will have vouchers not only for the grey matters but for all of us. These are little things. I'm not saying by design. Nobody has that much time to think about all the intricacies. But slow down.

It's funny. People say, "I don't want to change. My lot is okay. A devil I know," etc. But when pushed to change, people will create opportunities. Don't get me wrong. I'm not against change. I hear that from people I listen to more often. People want some change. They don't always articulate that. That's your job. But in this case you must admit the plate — you can only wear one set of clothes at a time and you can only eat one meal at a time. Even gluttony in its extreme would allow the digestive process to do some working. This is too much. You're wasting too much on the plate here and people must get accustomed.

You know the history of this province. You have a family, you have ancestors, friends that have the same. They know Ontario very well; they're so much a part of it. Hey, put the brakes on. People will not be harsh. People will understand. The same people who say, "I respect you because you're doing what you said you would do," are the very same people who in the final analysis want to see some flexibility and some human dimension.

If the seniors need a new roof, it's simple. It's going to cost $75,000 to contract out, because we don't do the job; somebody else does it. Great. It's not a big roof, but we don't have the $75,000. Where's it going to come from? "We're fine-tuning the thing." Maguire's "Show me the money," and as they get very close to it, that's what they're going to do. There are hundreds of municipalities like this.

It's not all bad news, but what I'm saying is, when you don't have the answers, when you don't take the time to piecemeal, it doesn't mean that you put the brakes on, but you're advancing on a heck of a lot of fronts. But you're welcome to it. If you wish to get to Viet Nam, you have the force to do that. You might never get out of it, though, and make sure you have the guns. What do you say if it's going to cost you more if you rush?

I fully agree with my friends to the extreme right, that of the Liberal Party.

Mr Spina: First of all, with regard to Mr Phillips's comment about this being well beyond anything promised in the Common Sense Revolution, you love the book so much, Mr Phillips, pages 16 and 17 talk about spending smarter, talk about less government —

Mr Phillips: Where's the seniors?

Mr Spina: Pages 16 and 17: "Spending smarter," "Less government." The purpose of the whole Who Does What exercise is to eliminate the duplication and waste as a result of both the provincial government and the municipal governments working on the same objective but overlapping each other, duplicating each other.

How did we propose to change that process? We got into what Mr Pouliot was beginning to talk about, which was downloading. I prefer to refer to it as exchange. We take the cost of residential property assessment for education, $5.4 billion, up to the provincial level. In exchange, we give the municipalities various services that are currently either shared by the province or paid for entirely by the province.

I understand, Monsieur Pouliot, about some municipalities perhaps experiencing a shortfall. You said that we'd better have the guns when that happens. In Mr Eves's speech, Mr Leach's speeches, we've clearly indicated that a reserve fund, as a result of savings of the exchange, will be there to assist those municipalities.

1400

I would also suggest to you that some of them should perhaps look to the region of Peel, the city of Mississauga, the city of Brampton, where they welcome the exchange. I can quote the CAO of both the region and the city of Brampton, as well as the mayor and the chair. They will at the very worst break even. In fact they anticipate having as much as between $5 million and $6 million in a reserve fund strictly held aside as a contingency to assist in the assumption of the social housing costs. These are well-managed, well-operated, very efficiently run governments.

I realize not all municipalities in the province are in the same boat. In fact, in all fairness, I recognize that in some municipalities the cost of the education portion of the property tax was not as high as it was in Peel, which was an average of 64% — some of them were in the 50% range — and I understand that, but that is where the province is prepared, as part of the transition process, to address it.

I wanted to get that on the record really as a counter to your argument, but I will harken back and reiterate what I said earlier, and that is that the bulk of this exercise will probably have been completed by the time we get to the budget.

Why the haste? We feel it is the right thing to do, first of all, but second, the reality is that the longer you delay, the higher the cost of government that will be a burden to the taxpayer of this province, and it will only go up if we delay any further. That is the reason we feel it is just to get this thing through as soon as we possibly can.

Mr Pouliot: I don't want to prolong this. What's the use? Then I get beaten up by the hoards.

Let's make no mistake about this air of pretence, of sanctity, of I think the Immaculate Conception. I'll leave this one at that. I don't wish to get into too much trouble. It's like a charlatan. They feel they've been shortchanged by the transfer payments from the federal government and they're the first people to say: "You keep sending the regulations, the standards, and the cheque in the mail isn't the same amount. It's gone down." So what do you do as merchants? You pass it, you download to the common denominator, the people you do business with, the consumer. Your clientele are the municipalities and the boards and commissions. You write the regulations.

One example, subject to change, is a lot levy. It's going to benefit the consumer if they get the full — well, if they get some of it anyway. There are always costs associated with these matters and you don't want too much scrutiny. Lawyers get in the way; accountants slow things down. But assuming that the developer would pass the savings to the consumer, the thing is, the municipalities will have to make up the shortfall because they won't get the revenues from the lot levy.

I'm sure that Peel and Mississauga, with respect to the administration of Her Worship Hazel McCallion, are always a good example. Don't we wish that we were to be blessed with commercial, industrial and municipal assessment? It's a success story extraordinaire. It's a case where they can hardly spend it fast enough. But that's not the example of the city of Toronto, is it? This has been managed growth; manna from heaven. No one thought it would have been that, and we want to wish them well. That's okay too, but it doesn't resemble — they have a better ability to put money aside, set infrastructure etc. I look at the assessment dollars, and my God, when I was at transportation I could see in the seamless system how well prepared they were, of course. They're doing quite well.

The thing is, this is not a secret. They're downloading. Let's go back — and Mr Phillips has emphasized it —

you need to find in relatively short order $3 billion. The economists will tell you that when you ask them. The bond rating agencies will tell you the same thing. The jury is out on whether it's a $100-million or a $200-million difference. It's $2.8 billion to $3.2 billion. That's new money. You've got to go out and find, in order to meet your commitment, a minimum of $3 billion. So let's call it what it is here. This is an exercise to facilitate $3 billion. Your problem, your challenge, is that you need it in short order.

Many of those changes cost money in the initial stage. When you retire people, when you go to the hospitals that are going to be shut down, what will be the cost of retiring by way of contractual arrangements or precedent the golden whatever handshake? In one case it was three years' salary, thank you. You can't toss people down. It's going to cost a lot of money. So it takes more time. Sure the duplication is well-thought-out, but you never spend as much.

You can dislocate, dismantle. I'm not saying it's wrong. Most of us agree that fewer school boards are necessitated, but what are you going to save? One hundred and twenty-five million? That's okay. It has to be saved there too. One hundred and fifty million dollars? The only way you're going to take $1 billion out of that system is to go after the salaries — you know that and I know that — because that's where the money is. The risks are immense. You can do this and do that, but unless you go where the money is — and the money is built into the collective agreements. The money is in things like accumulated sick leave and salaries, and rightfully so. I don't think they're overpaid; far from it. But I'll be around, all of us will, when the other shoe falls and people come and say, "It's not the same in my situation."

I want to caution you about one — I did 10 years of the most relevant form of politics, the fascinating world of sewer management at the regional and local level, before I got here. If you ask me what the bill is, it's like a job description. I can work 24 hours a day and I'm going to be submitting a bill to you because you've asked me what the cost was. Then you will begin to understand that when you have so many entities, get the adding machine ready, because there's a lot of costs that are built in. People don't bother. They do it matter-of-factly. Some 20% or 30% of their job description has nothing to do with the job that they're doing because they overlap and they do a lot of good things without charging. Now you're going to get the bill for these things, I can assure you, and be prepared to pay.

I never thought I would find the argument of the official opposition so compelling. I'm certainly not a Liberal. If you ask me in the morning, "How are you, Gilles?" I'm apt to say, "Comme ci, comme ça." I'm neither good nor bad, but I find their recommendations well-thought-out and certainly commonsensical. They seem to have established a balance as an alternative for a lot in a hurry.

1410

Mr Phillips: To Mr Spina, if this were disentanglement, I wouldn't feel strongly, but as Crombie's panel said: "It is going to undo much of the work accomplished by the disentangling proposals. The panel strongly opposes such a move. We are unanimous in the view that you shouldn't do this."

If you look at what Crombie and his group proposed, it was disentanglement, and what actually got done was re-entanglement. You've taken seniors now, and the province has some responsibility and municipalities have some responsibility. You've taken child care and you've got it split 50-50; social assistance split 50-50. You've got the health units now funded exclusively off property tax. Ambulances are funded off property taxes when you'd think they would be part of an integrated health system. You've got businesses paying education property taxes and residences not paying them. Now you keep hearing rumblings that the municipalities are going to take over the operation of the school buildings. This has turned into a re-entanglement mess.

The other thing I'd say is that it is going to add $1 billion the way it's spelled out right now. You'll begin to appreciate, at least I believe you'll begin to appreciate — and Gilles and I both went through this, because as you know, we were in government at one time — that the toughest audience for a cabinet minister is the cabinet minister's own caucus because that's where the gloves come off. When there isn't a question and a supplementary, there's a pitched battle sometimes, if your caucus is anything like any other caucus. So sometimes the government back bench runs the risk of being given as much cloudy information as the opposition is given.

I just say that, and it may be different with you, but if it is different, it's different than it was with other governments.

Mr Pouliot: That would be a first.

Mr Phillips: What I'm saying is that I don't think there's any doubt that the government has got three funds to try and help municipalities. Two of them, though, are just short-term funds. One is a transition fund and the other is this social assistance fund that is a rainy day fund. There's only one fund, that $1-billion fund, which you have to subtract the $666-million existing fund from. Mr Wettlaufer will remember. I think Mr Snobelen gave a speech in Kitchener at the end of mega-week and he said, "We're going to have a $1-billion fund which is 50% bigger than the fund it's replacing." If you listen carefully to that, ah ha, 50% bigger. It's replacing the $666-million fund with $1 billion, so the extra money is $335 million. When the smoke all clears three years from now, that's all you have budgeted, $335 million, to cover what in our opinion is at least $1.3 billion in extra costs.

I guess that's a long, rambling way of saying, first, if this were disentanglement, then I could see your argument. Crombie proposed disentanglement, and this spells it all out in detail. You can see that the province takes 100% of the responsibility and the municipality takes 100% of responsibility, and there's probably 30 items here. That was disentanglement. What you actually proceeded to do was to re-entangle, and as Crombie and his panel said, it's undoing much of the work that was accomplished.

The second thing I'd say is that in our opinion you're adding $1 billion to property tax. You can choose to say, "Well, that's just you opposition people," but I would urge you to get in behind the numbers on the basis that

the caucus is the toughest sell for a cabinet often. They'll never lie to you obviously, but sometimes you've got to draw the full story out.

The Chair: Further debate? Are you ready for the question? All those in favour? Those opposed? I declare the motion lost.

Mr Phillips: The last one is the tax cut: "The budget should not proceed with further tax cuts. It's increasingly clear the tax cut is driving expenditure cuts which are too deep. In addition, the promised job creation as a result of the tax cut has failed to materialize."

I don't think there's any doubt that Mr Eves gave out strong indications he's planning to proceed with another tax cut. My own judgement is that he's of the school of thought that the government is a beast that has to be starved. I understand some government members may feel that; I just think the tax cut is driving expenditure cuts too deep. It's letting one set of revenue horses out of the barn. It's gone. I've always said the government's financial problems don't occur now, they probably don't occur next year, they occur three years from now when the full tax cut hits and it's $5.5 billion. You will start to see the real impact of health spending at $17.5 billion in 1992, $17.5 billion in 1999, and all the strains that will put on the system. I would say if this were a business, you wouldn't be doing this. You would be saying, "I'm going to get my fiscal house in order before I declare the dividend."

Mr Pouliot: A few days ago I did what I do every year and started looking at — mine is a simple lot.

Interjection.

Mr Pouliot: Thank you kindly. I will be brief.

The Chair: You can be brief now.

Mr Pouliot: I start looking at doing my income tax report. I run a small ship. I'm an ordinary person. I looked at the tax cut. That's the final item that our friends from the Liberals are proposing. When I was finished, I looked at the CPP, the Canada pension plan, and how much I was going to pay. They are so complex. I have to work quite hard at most things. They don't come easily, and that's okay. Then I saw "health levy." It was on one of the pink things. From memory, Ontario, that's the province. So I added this up. I had read about Mr Martin saying that they don't want to overburden generation X, or while you burden them, you burden you too. So they spent the money.

Remember the pension plan, 1966, Lester B. Pearson? They went on a bender. That was going to be put into a special fund. We don't know where: borrowed from the province, your cousin came calling, the nieces and nephews? Anyway, they failed to pay it back, so now we've got to pay it — la payola big time — in order to make up the shortfall. So CPP's going up. Health levy. I thought we were going back. Mr Nixon got us out of the health levy. It was to come from the general purse. But this was for my own edification, my own education. I was supposed to learn about the tax cut as I went through that.

Then I looked at my paycheque and said really what's about to hit on the property level, the health levy, the CPP, all the distortion, the anxiety and the hurt and the unfairness, because if you make a lot of money, the more you make the better off you are under the tax cut. You should have capped that. You cap the poor, don't you? You could have said, "Okay, if you make more than $1 million a year...." That's a hell of a lot of money, no matter what you do. That's more than a commendable salary. Should you benefit more? They say you're going to create jobs. The chairpeople of the banks, Mr Brown, make a lot of money, $3.5 million, $4 million, when you take in the bonus plus the salary, and they get that big tax break. You don't create any jobs. In fact, the Royal Bank cut 5,000 jobs in one year — so much for job creation — while the person, the bank baron, filled his pocket and now he's saying thank you to you.

1420

It doesn't make sense. I think morally it is wrong. It's not wrong to give people an incentive, but to have 30% on the provincial income tax rate on somebody who makes $25,000 — it's percentage here, it's not dollars — and I know I exaggerate because few people make that amount of money, I agree, but it strikes me as a little difficult to swallow. I don't wish I had that money or that tax break. I'm not that envious, I'm not jealous, but you know, for the public out there it's pretty hard to swallow that if you make — Frank Stronach made $38 million in one year, a lot of money by any standards. That 30% tax break will save enough that you could have given 3,000 people an increased tax break. That's 3,000 consumers. I don't begrudge him, I want to wish him well, but sometimes I have some — I think we all do — problems with these things. But no one is perfect.

I find the presentation that comes straight from your office there, the high-priced help there, both the political staff and some ministry staff — they abound down there. When I blend this with the — not this thing. This is a rehash. If you want to talk about commonsensical, about some thoughts, equilibrium, balance, you go to this. If you want to hit people hard and serve a select clientele, you go to this here. This is a show we don't have access to. Only the rich — mainly the rich — benefit and, I've said it before, those who can run the fastest.

If you read between the lines here, the poor are not even on the back page. They've been dealt with the first time around. They don't have a voice. They're dislocated. They're shy. They're easy to intimidate. When you move here, you're moving up the food chain — Pacman. They're moving up to the middle class and you have further erosion; not more of the middle class, further erosion. But for those who can run the fastest, who can push away from the field, they will be the winner take all.

But if they're okay, everybody else should be okay too. They have their heads buried in the sand. That's not the way you run a society. You don't to have be a Liberal or a so-called pink or red socialist. I think it's the weakest link is gone and it reflects on them. They have the chance, they have the hammer, they have 82 seats.

I'll tell you what: When I see this here, if your parents, in this context, were born before you, if you're blessed with the dineros, if you can buy all the goods and services, you couldn't care less about the downloading. You're going to buy your own. Don't negotiate with them. They'll convince them that a side insurance and a two-tier health system are okay and they will try to

convince us that you no longer have to wait for heart surgery, because you're not number 235. Because 15 have gone on to the other system, you're now number 220 and you should be thankful.

I'm disappointed, but first I believe, I said: "It's a change of government. That's how we got the job in the first place. We tried our best in a more difficult situation." But we would never have gone to this extent when times were bad. Now times are favourable, but they're still doing it. It's in their nature. Look at them.

Thank you, and I'm anxious to be very brief in our presentation. I feel when I blend the two, in the final analysis, this one is to be commended, this one is so bad but so predictable, and this is the answer here that I'm about to present.

Mr Phillips: Well, we've waited all day for it.

Mr Hudak: I strongly disagree with this motion because again — and they're not only personal feelings, but reinforced by a number of deputations to the committee — the tax cut is key to enhancing economic growth for the sake of long-term job creation. I certainly think that if Ontario had not moved to reduce its income tax rates, we would have been at the bottom of job creation in Canada and wouldn't have met our deficit targets. I think the tax cut's important to both job creation and long-term deficit reduction.

I'm curious too to see where the Liberal Party will be on this issue in the run-up to the next election, to see if they will stand for higher taxes, to put tax rates back up to 58% of the federal tax or if they will finally see some common sense and support the tax cut at the end of this mandate.

Mr Wettlaufer: I'm a little bit flabbergasted, really, by this recommendation, in that I went through five years of Liberal government when there were increases in taxes. As a small businessman, I saw increases like crazy when there was absolutely no need for government to be spending to the extent it was. I don't believe I ever heard that government ask the public whether or not the public wanted the government to spend that kind of money. I didn't see any reductions in taxes or in spending by the previous government. I cannot support this recommendation.

The Chair: Further debate? Are you ready for the question, recommendation 1 under "Tax Cuts"? All those in favour of the motion? Opposed? I declare the motion lost.

I understand the recommendations from the third party have been distributed. There's a preamble and six recommendations. Mr Pouliot, do you move the first recommendation, "The current fiscal program of the government to cut taxes and spending at this time should be terminated"?

Mr Pouliot: Yes, thank you. You will allow me, since it is so brief, Mr Chair, and we've already agreed that other people have some commitments, and what was scheduled to be the final day tomorrow becomes the final day today — so I'll be brief.

The fiscal program of the current government is not achieving its stated objectives. The government is short on its job creation goal of 145,000 jobs per year by some 55,000 jobs. Even more troublesome is the fact that there are currently 25,000 less people employed now than there were when this fiscal and economic agenda was begun.

Let me go to the recommendations. The first one is, "The current fiscal program of the government to cut taxes and spending at the same time should be terminated." In the course of the morning and afternoon, we spoke at some length about the time to put the brakes on, that we don't have a bad situation. If it ain't broke, like friends opposite like to say, well, don't fix it. But when you break things and you feel compelled to fix them — simply put, we've had about enough of the Common Sense Revolution. Some of it was welcome. You've won, okay? You're the big guy, but don't bully the eternity out of us, the last breath out of us. We get the message: Things need to change. We wish the government would take a breather and listen to an increasing number of people out there who are beginning to have doubts as to the zeal and the determination of the government.

1430

The Vice-Chair: Further debate on that motion? Then I'll call the question. The motion reads, "The current fiscal program of the government to cut taxes and spending" — Mr Wettlaufer?

Mr Wettlaufer: I'd like to move that we vote on items 1 to 6 all at one time.

Mr Pouliot: I know the essence of time. We went through the presentations one by one and that was okay. People had a chance to explain and to lay out some rationale. There's not a great deal of items. Then we went to the official opposition and we did the same thing. Now we have six recommendations, which is no lengthier than yours or the official opposition's. Some of us may not have had an opportunity to lay credence to each of the six. I'm willing to listen — it's not likely I will win — but why a departure from this format when it would take a few minutes more?

Mr Wettlaufer: Having reviewed the recommendations and comparing them to the recommendations of the opposition party and ourselves, our government, I notice that there is a great deal of similarity to the opposition's recommendations. Substantial debate has been carried out today on the Liberal recommendations and our own. They are so similar that I think debating it further is just a lot of repetition, a lot of rhetoric, and I don't see any need for it.

Mr Phillips: Actually, I find each of them somewhat different and I really think that in fairness to all members of the committee we should deal with them individually. We did each other the courtesy of giving each a chance to explain their recommendations. Four of these I can support and two of them I'd like to support, it's just that I'm not sure of the intention of them, so I have difficulty in voting for them as a block. I would think we'd want to do what we did with the other recommendations.

Mr Bassett: I would concur in the interest of doing the same thing for all three parties. If we've debated the issue, then if we go one by one, obviously we won't repeat ourselves, we just don't need to speak. I would vote we handle them one by one.

The Vice-Chair: Mr Wettlaufer.

Mr Wettlaufer: Okay.

The Vice-Chair: Very good. So the motion on the floor, Mr Pouliot's motion, is, "The current fiscal program of the government to cut taxes and spending at the same time should be terminated."

All those in favour of the motion? All those opposed to the motion? I declare the motion lost.

The second motion, Mr Pouliot.

Mr Pouliot: I have spoken at length on number 2 so I will not be repetitious. Suffice it that I will read it one time only: "This budget should endorse a fiscal program of balanced deficit reduction by maintaining the income tax revenue base."

The Vice-Chair: Debate on the motion? Seeing no debate on the motion, I'll call the question. All those in favour of the motion? Opposed? I declare the motion lost.

The third motion, Mr Pouliot.

Mr Pouliot: "This budget should introduce real job creation programs targeted specifically to youth and low-income earners with emphasis on training and education."

We have debated this. We all feel we're right about the issue. I think people would wish to — the mechanism might be slightly different. I will say no more. I've said enough on this matter.

The Vice-Chair: Further debate on this motion? All those in favour of the motion? Opposed? I declare the motion lost.

Mr Pouliot, the fourth motion.

Mr Pouliot: "This budget should introduce economic stabilization also aimed at the long-term social and economic health of the province with the introduction of a child income benefit. The federal government's announced plans will do little if nothing to eliminate child poverty or provide for income stabilization leading towards increased consumer confidence."

This is a staple. This is a long-standing tradition, not only with our party, but others have endorsed that as well. I think the wording speaks to the matter and it speaks for itself. I will say no more.

The Vice-Chair: Further debate on the motion? All those in favour of motion 4? Opposed? I declare motion 4 is lost.

Mr Pouliot, motion 5.

Mr Pouliot: "Following the recommendation from the National Forum on Health and given this government's intention to cut hospital care in the province of Ontario, this budget should guarantee the coverage of home care as part of the Ontario health insurance plan."

We all share the fear that when the finality, in some cases the padlock, closure appears, the main question we ask ourselves is, will the alternatives be in place? When you begin to cross the street, there won't be any going back; you'll have to finish crossing it. On the other side will there be a facility that will address my needs? I think I've said it all when I say this: We're concerned that given the magnitude, so many changes, an increasing number of people will fall through the cracks and won't have a home to go to, not literally but figuratively, to answer their needs. We're asking the government, even if it takes a little more time, when you make your transition you must have the community alternatives in place.

The Vice-Chair: Further debate on the motion on the floor? Seeing no more debate, I'll call the question. All those in favour of motion 5? Opposed? The motion is declared lost.

Mr Pouliot, motion number 6.

Mr Pouliot: "This budget should announce the government's intention to abandon the download of health and social services to municipalities and ensure that property taxes are protected by introducing real property tax reform which stipulates that only "hard" municipal services such as garbage pickup, road maintenance, water and sewer services be paid for through the property tax."

It would be prolonging the agony to repeat again and again. We're anxious to see the other shoe drop and hope, as I finalize, the government — it will claim to be reasonable — will also be consistent and predictable in the formula, that once you establish a program, you do not change the rules in midstream unless it's mea culpa, that you've really made a bad mistake. People want to know where they're going and they want your help in seeing them through in the transition.

The Vice-Chair: Further debate on this motion? I'll call the question. All those in favour of motion 6? Opposed? I declare that motion lost.

Are there any further motions with respect to recommendations on the report on pre-budget consultations?

Ms Bassett: I have another motion I want to make. I just didn't know whether you were wrapping up that.

The Vice-Chair: I was just seeing if there were any more motions with respect to recommendations for the report, that's all. Seeing none, this is another recommendation with respect to the subcommittee?

Ms Bassett: Yes.

The Vice-Chair: Please go ahead.

Ms Bassett: I move that upon final approval of the subcommittee:

(1) That the report be sent for translation and printing;

(2) That a copy of the draft report be forwarded to the Minister of Finance; and

(3) That the Chair of the committee table the final report, when printed, with the Clerk of the House if the Legislature is not meeting, or in the Legislature if it is sitting.

The Vice-Chair: Any discussion on the motion?

Mr Phillips: We'll be submitting a minority report. When is that due to be in?

Clerk of the Committee: The Chairman was suggesting that perhaps the subcommittee could meet on the 31st to review the report at that time. You can discuss when you wish to see the report presented and so forth. It would be the 31st or April 1, when you're all here.

Mr Phillips: So we'd meet — I think the 31st is a holiday, probably — on the 1st. When would the minority reports be due?

Clerk of the Committee: It could be due on that day, because then we'll have to send it to the printers, once it is approved there.

Mr Phillips: That's okay with me.

Ms Bassett: That's fine with me. So we're going to meet April 1 and the minority report will be tabled then?

Mr Phillips: That's fine with me.

Interjection.

Clerk of the Committee: If I may, it's a minority opinion, not a minority report. There's only one report.

Mr Pouliot: There's only one?

Clerk of the Committee: One report with a minority opinion.

The Vice-Chair: To clarify for the record, the Chair's understanding then is that on April 1 the subcommittee will convene with the report and the opposition opinion will be brought forward at the subcommittee at that time.

Mr Phillips: Both of these were presented last year as dissenting reports, but I guess they were incorrectly presented.

Clerk of the Committee: If I may clarify, Mr Phillips, the standing orders specifically say there is only one report, which may contain minority opinions.

Mr Phillips: Okay.

The Vice-Chair: Mrs Bassett has moved the motion with respect to the subcommittee. All those in favour of that motion? Carried.

Mr Phillips: It's procedural. It's straightforward. There's not the word "agreement" or anything in there, is there?

Ms Bassett: No, there's not. Do you want to look at it?

The Vice-Chair: The Chair's understanding is that this motion is the same motion that was passed last year and traditionally by the finance committee in terms of when the report's presented to the finance minister and how, and how it's presented to the House.

There's one more final item of business. The research officer will need to put the recommendations in the body of the report. To what extent should the research officer flesh out the recommendations? Does sufficient background already exist in the report or should she flesh out the background a bit more on the particular recommendations? Secondly, could we give the subcommittee the ability to supervise that process and to approve the final recommendations that are put into the report?

Mr Phillips: I think it's difficult for the research person to put all the rationale into the recommendations, so I'd be inclined to just go with the recommendations. I think you put the research person into some editorializing one way or the other, and it's almost impossible, I think.

The Vice-Chair: That was one of the questions the committee was asked to address when we first started going over the report, on page 1, if you still have your reports, if there was sufficient background on the context of the issues the committee made recommendations on. Mr Phillips seems to feel that context exists and the research officer should just put the recommendations in the body of the report.

Ms Bassett: As printed.

The Vice-Chair: As printed.

Ms Bassett: Okay, that's fine.

The Vice-Chair: As adopted by the committee.

Mr Pouliot: A leap of faith. It would be unfair to burden the government with the rationale and substance to qualify what they've put down on paper. It's an ideology and a leap of faith; that's all it is.

The Vice-Chair: Is it agreed that the research officer will be able to put the recommendations, as passed by the committee, into the body of the report for approval by the subcommittee? Agreed.

Ms Bassett: Can I question one thing? When you say the body of the report, do you mean as we go through or at the end of the report, before you get to the minority report or whatever?

Mr Phillips: The recommendations.

Ms Bassett: Yes, how do they go?

Mr Phillips: My judgement would be as they've been in previous years. There's a page at the end called "Recommendations."

Ms Bassett: That's what I would agree to. I just wanted to clarify it.

Ms Drummond: The individual recommendations have also been attached to the section of the report that they're most relevant to, as well as all being collected at the end. Would the committee prefer to just have them at the end?

Ms Bassett: I think at the end, because so many of them refer to so many different things. You'd have to keep repeating our recommendations all the way through. Have a page of recommendations. Is that fine?

The Vice-Chair: So is it agreed that the recommendations of the committee appear at the end of the report?

Mr Phillips: Fine with me.

Ms Bassett: Fine with me.

The Vice-Chair: Agreed.

It looks like we have finished our business, folks, so we will not have to meet tomorrow. We'll give you a day off tomorrow for your other business. I will adjourn this committee until further notice; April 7, I understand. For everyone's information, the advertising on the committee hearings when we're travelling and for the Toronto hearings has gone out today. The first day we're back is April 7 here at 1 pm, committee room 151, with the presence of the minister himself. I'll adjourn the committee until that time.

The committee adjourned at 1444.

CONTENTS

Tuesday 18 March 1997

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Chair / Président: Mr Ted Chudleigh (Halton North / -Nord PC)
Vice-Chair / Vice-Président: Mr Tim Hudak (Niagara South / -Sud PC)

Ms Isabel Bassett (St Andrew-St Patrick PC)
Mr Jim Brown (Scarborough West / -Ouest PC)
Mr Ted Chudleigh (Halton North / -Nord PC)
Mr Joseph Cordiano (Lawrence L)
Mr Douglas B. Ford (Etobicoke-Humber PC)
Mr Tim Hudak (Niagara South / -Sud PC)
Mr Monte Kwinter (Wilson Heights L)
Mr Tony Martin (Sault Ste Marie ND)
Mr Gerry Martiniuk (Cambridge PC)
Mr Gerry Phillips (Scarborough-Agincourt L)
Mr Gilles Pouliot (Lake Nipigon / Lac-Nipigon ND)
Mr E.J. Douglas Rollins (Quinte PC)
Mr Joseph Spina (Brampton North / -Nord PC)
Mr Wayne Wettlaufer (Kitchener PC)

Clerk / Greffier: Mr Franco Carrozza

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Standing committee on finance and economic affairs

Comité permanent des finances et des affaires économiques

Fair Municipal
Finance Act, 1997

Loi de 1997 sur le financement
équitable des municipalités

Chair: Ted Chudleigh
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ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Monday 7 April 1997

Lundi 7 avril 1997

The committee met at 1303 in room 151.

FAIR MUNICIPAL FINANCE ACT, 1997
LOI DE 1997 SUR LE FINANCEMENT ÉQUITABLE DES MUNICIPALITÉS

Consideration of Bill 106, An Act respecting the financing of local government / Projet de loi 106, Loi concernant le financement des administrations locales.

The Chair (Mr Ted Chudleigh): I call the meeting to order. Welcome to the standing committee on finance and economic affairs, back in session. Today we're here to consider Bill 106, An Act respecting the financing of local government. We have with us today the Minister of Finance, the Honourable Ernie Eves, who will be making a statement to the committee.

STATEMENT BY THE MINISTER AND RESPONSES

Hon Ernie L. Eves (Deputy Premier, Minister of Finance): Mr Chairman, committee members, it's a pleasure for me to be here today to make some brief introductory remarks — they may not turn out to be so brief — as we begin public consultations on Bill 106, the Fair Municipal Finance Act, 1997.

What I would like to do today is tell you about the problem with property assessment in Ontario, why the problem needs fixing and what the changes we're proposing in Bill 106 will do to fix the problem as well as create a fair property tax system for everyone in Ontario.

With this bill, we have taken up the challenge of fixing a property tax system that in many parts of the province is out of date and unfair. Numerous commissions and studies have looked at property assessment over the last two decades, yet previous governments of all three political stripes have failed to act to bring fairness into the property tax system across Ontario. Because those governments failed to act, thousands of homeowners and businesses have been paying more property tax than they should be.

I understand other governments' reluctance to take up this challenge. It is a difficult and sometimes charged issue. But we know what the government is proposing in Bill 106 is the right thing to do. We aren't the only ones who are saying that the system needs to be changed; thousands of Ontarians who pay more than their fair share of property tax are saying the same thing.

What's wrong with Ontario's assessment system the way it is now? Quite simply, the system we have now is grossly unfair. It is unfair to the working family of four who are trying to make ends meet and pay off their new town house, only to discover that they are paying twice as much tax on their home as their neighbour down the street pays for an identical home. It is unfair to the farmer whose cash is tied up in a farm tax rebate and can't use it to invest in new machinery to increase his crop yield. It is unfair to the owner of a family business who wants to hire an additional assistant but can't because her income is being drained by unfairly high assessments. It is unfair to municipalities, which right now don't have the flexibility and the powers they need to tax fairly and in ways that meet their local priorities. It is unfair to the taxpayer who has to pay more tax because municipal revenues are being drained by thousands of unnecessary appeals generated by an outdated assessment system.

How did the system get to be so unfair? The chief problem is that assessments haven't been updated consistently throughout the province. In Ontario today, assessment values of properties are based on years that range from the beginning of the Second World War all the way to 1992. Basing property taxes on such widely different assessment years is like basing one person's income tax on what they earned in 1940 and another person's income tax on what they earned in 1997. It just doesn't make sense, and it isn't fair.

Of the 3.8 million properties in Ontario, more than two million have assessments that are more than a decade old. In other words, about 53% of properties are owned by people who are paying taxes that don't bear any resemblance to the value of their property. Some have been paying too little, some have been paying too much, and this is happening because their properties haven't been assessed recently; in some cases, in more than half a century.

Here's another way to look at this: Almost 64% of Ontario's $745-billion assessment base — that's the estimated dollar value of all properties in Ontario — is based on property values that date from 1984 or earlier. Here are a few examples: In Metro Toronto, assessments are based on 1940 property values; Trenton also uses 1940 property values; in Oshawa, assessments are based on 1950 values; Markham, Vaughan and Richmond Hill use 1967 values; Kapuskasing uses values from 1968; in Elliot Lake, assessments are based on 1972 values; Belleville and Peterborough are using 1975 values, and so on across the province of Ontario.

I can tell you what happens when property assessments are not kept up to date. Here are some actual examples of taxes paid by homeowners in communities across the province. Two semidetached houses on the same street in Cabbagetown sold for $310,000 in 1996. One family pays about $2,400 in property taxes. Their neighbour, living in

a house that's virtually identical, on the same side of the same street, getting the same services, pays $1,300. That's a difference of more than $1,000 in taxes, money that family could use to pay off their mortgage or buy new appliances for their home.

Here's another Toronto example. Two very similar houses on the same street both sold for about $295,000, yet one family pays $1,100 in property tax while their neighbour across the street pays $3,200. That's nearly three times as much, and no one could possibly guess, by either looking at these houses or comparing their sale prices, why people are paying such unfairly different rates of tax.

But the fact that it doesn't treat people fairly is not the only thing that's wrong with the present system. The present system of assessment and tax is so complex and confusing that it's difficult for property owners to figure out why they're paying what they're paying. Here's an example of what you might find on your assessment notice or on your tax bill right now in some communities.

If you're in a municipality that has been reassessed by property class, you multiply the value of your property by the class factor — that's the old assessment of the class — divide that by the new market value of the class, and that will give you the assessed value. Multiply that by the mill rate and you'll finally arrive at what you owe in property tax.

1310

If your municipality hasn't been reassessed recently, it gets even more complicated. Take the value of your property and multiply it by the neighbourhood factor, which is based on the value of similar properties in your neighbourhood. That gives you the assessed value of your property, which bears no resemblance to what your property is actually worth. That, times the mill rate, equals your property tax.

If you find this confusing, you're not alone. Thousands of other taxpayers across Ontario scratch their heads every time their tax bill or assessment notice lands in their mailbox.

Not only is this system unfair, it is also complicated, frustrating and incomprehensible for taxpayers. What's the result of a system that is unfair, inconsistent, outdated and impossible to understand? The result is thousands upon thousands of taxpayers who appeal their assessments every year. In every year since 1990, some 40% of the city of Toronto's assessment base has been under appeal. In fact, in 1993 and 1994 approximately 100,000 appeals were filed each year in Metro Toronto alone. Successful appeals cost Metro more than $100 million in each of those two years. With each new round of successful appeals, that figure mounts. Other taxpayers have to pick up those dollars in their property taxes.

For communities across Ontario, successful appeals are eroding the tax base they need to pay for local services. So communities have to push their tax rates up to make up the shortfall, resulting once again in more people paying more in taxes than they should.

When taxpayers launch appeals, they run straight into a complex, drawn-out and expensive process that can quite literally take years to come to a conclusion. Right now, according to the Assessment Review Board, there are some 344,000 property tax appeals pending in Ontario. Again I can give you some examples of how this plays out in some of the assessment regions across the province.

The city of Toronto, where my colleague Isabel Bassett's riding is located, has more than 64,000 property tax appeals currently in the system; Niagara region, where Mr Hudak's riding is located, has more than 26,000. Halton-Peel — Mr Chudleigh's and Mr Spina's ridings are in this area of the province — has 43,000 appeals outstanding; East York and Scarborough region, which includes ridings represented by Mr Phillips and Mr Brown, has some 30,000. North York, where Mr Kwinter's and Mr Cordiano's ridings are located, has 26,500 appeals working their way through the system; Etobicoke-York region, where Mr Ford's riding is located, has almost 27,000. Algoma, where Mr Martin's riding is located, has 737; Waterloo, where Mr Martiniuk and Mr Wettlaufer's ridings are located, has almost 10,000; Northumberland-Hastings-Prince Edward region, Mr Rollins's riding, has just under 6,000; while in the Kenora-Rainy River-Thunder Bay region, Mr Pouliot's riding, some 1,800 property owners have outstanding assessment appeals.

The unfairness and the unnecessary complexity in the present system don't stop with the individual homeowner or even the municipality. The local businesses that provide services and create jobs and prosperity in communities are struggling with an unfair system in much the same way.

Under the existing business occupancy tax, a parking lot is taxed at 25% of its assessed value, while a family-owned bakery next door is taxed at 60%; the tax base of the brewery down the same street is based on 75% of its assessed value; and the ad agency that creates the advertising, the posters and the flyers for all these businesses is taxed at 50%.

The impact of this is felt right across the community. What all this means for businesses is that the playing field is simply not level. If the playing field is not level, businesses can't compete efficiently and fairly with each other. Where businesses are less efficient they create fewer jobs, their services cost us more and communities across Ontario are not as prosperous as they could be and should be.

I think I've given you a fair sampling of what's wrong with the current situation, whom it's hurting and why it needs to change. Ontarians have been telling their governments for many decades now about problems in the system. We are listening and responding in Bill 106.

Now I'd like to move on to tell you about our plan, through Bill 106, to make the system better and about who will benefit from that change. The changes we're proposing through the Fair Municipal Finance Act will ensure that all property taxpayers are treated fairly and equitably. Families who have been paying more than their fair share of property tax will see their taxes go down because they won't have to pick up the tab for those who have been paying less than their share. Businesses that create jobs and prosperity in communities across Ontario will have a more level playing field, where they can compete, grow and do business.

Municipal governments will benefit from our plan to get rid of red tape and administrative duplication. They will have a new range of powers, choices and options to collect revenues from taxes in ways that fit best with their local priorities and best meet the service needs of their residents. They will be better able to plan how to serve their residents because they will have a more stable, predictable revenue base that is not being eroded by thousands upon thousands of tax appeals.

Taxpayers across the province will be able to understand how the assessment of their home or business relates to what it is currently worth. They will be able to understand how municipalities use that assessment to set taxes that pay for services. This in turn will make it easier for taxpayers to hold governments accountable for the way they spend taxpayers' dollars and for the services they deliver for those dollars.

We've looked at what's wrong with the present system and why it needs to be changed. We've also looked at who will benefit from our plan to make the system better. Now I'd like to move on to how we're going to put that plan into action.

Bill 106 is based on four key principles of fairness in property tax. These principles are:

Properties in a community that are assessed at the same value and are benefiting from the same services should pay the same taxes.

Property assessments are fair and consistent only if they are brought up to date and kept that way.

Property assessment and taxes should be open, transparent and understandable to everyone.

Taxpayers have the right to a fair, clear, straightforward and efficient process to appeal their taxes if they disagree with their assessment.

This is how Bill 106, the Fair Municipal Finance Act, will put these principles of fairness into action. We will create a system that is fair, clear, more consistent and more accountable. The proposed legislation will establish the Ontario fair assessment system, which will be based on current value; ensure regular updates of properties' assessed values; smooth the ups and downs in assessed values by the use of three-year rolling averages; make the property tax system fairer and easier for taxpayers to understand; give municipalities important new powers to address their revenue needs in ways that best fit local priorities; scrap the outdated business occupancy tax; create new low property tax rates for farmers and woodlot owners; exempt conservation lands from property tax; simplify the process for assessment appeals; and cut red tape and reduce administrative burden for municipalities.

The Ontario fair assessment system is the cornerstone of our plan to bring fairness to property taxes. First of all, OFAS will mean that every homeowner and every business property owner in every community across Ontario will pay taxes based on a simple, understandable policy: that two property owners who own similar property of the same value in the same community getting the same services will pay the same taxes. Their taxes will be fair, and taxpayers will be able to clearly understand how and why their taxes are fair. That's just common sense.

Secondly, OFAS will mean that the system will be fair and consistent throughout the entire province. Our plan is to put every one of Ontario's 3.8 million properties on the same valuation date: June 30, 1996. We're doing this not just to create a fair property tax system but to make certain that the system stays fair for every property taxpayer in the province.

We will create a system that is consistent across the province. Most important, we will ensure that all property assessments are fair and up to date and that they stay that way permanently. That's what the Fair Municipal Finance Act will do.

1320

To ensure property assessments are fair and accurate, assessors who are trained specifically for this job use some 30 different factors, ranging from information on recent sales in the neighbourhood to the number of rooms in your home.

The data that are collected on every property will be managed and analysed using computer models to produce an updated assessed value for every property. When we finish this process in December this year, every property in Ontario will have an assessed value that will be based on what it was actually worth on June 30, 1996.

Third, the Ontario fair assessment system will recognize the right of taxpayers to a clear and straightforward appeal process.

Earlier on I talked about some of the problems that have been created by the system that's presently available for property owners who disagree with their assessments.

Under the present system, decisions of the Assessment Review Board can be appealed to the Ontario Municipal Board. As I mentioned earlier, taxpayers who disagree with their assessments can find themselves tied up in red tape for literally years trying to reach a satisfactory resolution. Right now it can take as long as two years to schedule an appeal before the Ontario Municipal Board.

The Crombie panel found that this two-tier process was costly, difficult and time-consuming for taxpayers. We agree, and through Bill 106 we propose to simplify and streamline the process for taxpayers and eliminate costly waste and duplication, while protecting peoples' rights to appeal their taxes.

If you're a property owner or a tenant, you will be able to appeal your tax assessment more easily. Complaints can be resolved through a consultation process rather than through the formal, bureaucratic process of hearings.

Under the new process, if you are a property owner who disagrees with your assessment, your first step will be to discuss your concerns with your local assessor. If you can come to an agreement that resolves your concerns and the municipality agrees with your solution, there's no need for a formal hearing.

To allow more time for people to take advantage of this consultation process, we're extending the deadline for appeals. If you can't reach an agreement through the consultation process, the Assessment Review Board will hear your appeal and make a decision. The decision of this independent tribunal will be binding.

Under the new appeal system, taxpayers will still have all their current appeal rights and access to the courts that they currently have.

To sum up, the Ontario fair assessment system will mean that every property owner across Ontario can

benefit from a fair, up-to-date, understandable and more open tax structure. In the same way, the plan we're proposing through Bill 106 will mean fairness for communities and businesses across the province.

Municipalities are in the best position to decide what is most fair to local ratepayers and what best fits with their priorities. Bill 106 offers municipal governments a choice in setting different tax rates for different classes of property.

Under the present system, municipalities only had two choices of tax rates. Many taxpayers argued that with the old system, taxes were not distributed fairly among property classes. We agree. With the introduction of variable tax rates, municipalities will have more choices and will be able to decide what tax rates to apply to each class.

Bill 106 proposes six standard property classes. These are residential; multiresidential; commercial; industrial; pipeline; and farmlands and managed forests.

Bill 106 also allows the provincial government to identify additional property classes. For example, we've determined that municipalities should be able to put new multiresidential properties in a separate property class if they wish to do so. This gives municipalities an option to encourage construction of new apartment buildings by taxing them at a lower rate.

Municipalities will have the power to reduce unfair differences in tax rates in a manageable way. But they won't be able to increase existing differentials in current tax burdens between property classes. In other words, municipalities can make the distribution of taxes fairer but they can't increase unfairness in tax distribution.

The Fair Municipal Finance Act also contains measures to allow local governments to bring in changes gradually, over time, in ways that are fair, compassionate and consistent with community priorities. What we are saying, by giving local governments the choice of how best to phase in change, is that we are confident that municipal representatives understand best the needs of their communities and their neighbourhoods.

These measures will give municipalities greater autonomy. Because municipalities will have more powers to decide how and when they will bring in changes, they will be more accountable to their local taxpayers. Because taxpayers will understand how municipalities calculate the taxes they pay, they will be in a better position to hold local governments accountable for how they spend taxpayers' dollars.

In order to protect seniors and people with disabilities, we're giving municipalities the ability to provide special protection from tax changes to low-income seniors and their spouses. Municipalities will also have the power to offer the same kind of protection to low-income people with disabilities and their spouses.

At present, the main way this kind of protection could be provided to seniors and disabled persons is through the complex and bureaucratic process of introducing a private member's bill in the Ontario Legislature. That process makes no sense and is too cumbersome and slow to respond to the needs of people and communities.

Under Bill 106, municipalities will be able to set bylaws to define low-income seniors and low-income disabled homeowners. Municipalities will be able to defer any tax increases that may result from reassessment until the properties belonging to these people are sold. Municipalities will also be able to set parameters, such as the rate of interest, for the deferral program.

Bill 106 will also offer municipalities choices in the way they help cushion the effect of tax changes on property owners. Municipalities will have up to eight years to phase in any tax changes that may result from the assessment update. That's more than double the period of time available today. While Bill 106 is all about making sure everyone pays their fair share of tax, this measure will make it easier for those who haven't been paying their full share to adjust to that change.

As well, this spring we plan to introduce legislation to enable municipalities to set lower tax rates on lower-valued commercial properties. Municipalities will be able to choose to tax properties, such as small retail stores and neighbourhood shopping districts, at a lower rate than office buildings and large commercial developments.

I noted earlier that it's harder for businesses to compete effectively when the playing field is not level. Outdated assessments mean an unlevel playing field. Under the new system, if you own a small business, you will no longer find yourself paying more in property tax than your competitor who has a similar property down the street. All small businesses in a municipality will pay the same taxes if their properties have the same value. Businesses will be able to compete on a more equal footing because we will reduce arbitrary tax distortions.

Eliminating these tax distortions would create a healthier tax environment for business. A healthier tax environment means that businesses can get on with the jobs they do best: creating employment in their local communities, providing services that people want to buy and contributing to growth and prosperity.

Annual assessment updates will help businesses plan with more certainty. This, coupled with the proposed reform of the provincial-local financial relationship, should increase business confidence.

I'd like everyone to take a good look at this photograph that's on the screen right now. This is downtown Toronto, on Yonge Street, at the turn of the century. It doesn't bear much resemblance to the heart of Toronto's financial district today, does it? But that's the time which the business occupancy tax was designed for. It's been on the books of the province, unchanged, since 1904, about the time this photograph was taken, and it hasn't changed very much since then. It's hardly surprising that businesses and municipalities across the province have complained that this is an antiquated and cumbersome tax.

To calculate the business occupancy tax, you must multiply the assessed value of the part of a property that is used by a business by a percentage rate specific to the type of business. It is impossible for taxpayers to understand and very expensive to administer. There is no justification for taxing different businesses at different rates.

The reality is that the business occupancy tax is unfair, outdated and discriminatory. Businesses and municipalities have long been asking for the elimination of this

arbitrary and obsolete tax. The Who Does What panel recommended that we get rid of it; so did the Golden commission, the Fair Tax Commission and the Hopcroft report. We've heard these concerns and we've taken their advice.

With the Fair Municipal Finance Act, we will scrap the business occupancy tax. Businesses have responded positively to our intention to get rid of this tax. To quote the president of the Ottawa-Carleton Board of Trade: "It's one less tax for business, and that's great. Now the business community will invest what they save, and that's going to be good for the economy."

1330

Eliminating the business occupancy tax will also save money. It's costly for the province to calculate, it's costly for municipalities to send out tax bills and it's costly for municipalities to try to collect the revenue. Business occupancy tax is difficult to collect because, unlike property tax, it is a tax on the person owning the business, not the property.

At the end of 1995 there was about $200 million of business occupancy tax in arrears across the province. That again means the rest of us have to pick up the tab for that shortfall. Once again, that's unfair and it leads to many people paying more than their fair share of property tax.

Besides scrapping the business occupancy tax through Bill 106, we will give municipalities the tools to recover their share of business occupancy tax revenue, if and how they choose. They can continue to raise this revenue from business; they can raise some or all of the dollars from within the other classes of properties. It's their choice.

What else will property tax reform mean for businesses? Besides levelling the playing field and getting rid of tax distortions, Bill 106 also provides municipalities with powers to set tax rates to support the growth of businesses in their communities.

Variable tax rates will allow municipalities more opportunity to respond to unfair tax differentials. Historically, the only way municipalities could reduce the property tax burden on business relative to residential properties was to fully equalize taxes. This proved to be too big a step for many municipalities. The proposed new system will allow municipalities to make consistent improvements, in steps that are acceptable in their community. Smaller businesses, such as neighbourhood shopping districts and small retail stores, will also benefit from our plan to give municipalities the power to set lower tax rates on lower-valued commercial properties.

Finally, we are confident that by careful management of their new responsibilities, municipalities will be able to provide for a more supportive tax climate for all taxpayers, including community businesses. Indeed the new municipal powers allow municipalities to give any such tax reductions solely to business classes if that is the choice that best meets their local needs.

Bill 106 also brings a 75% reduction to the taxes paid by farmers and woodlot owners. Currently, farmers pay 100% of a property tax and have to apply annually to get a rebate for 75% of their property taxes. In other words, farmers' capital is being tied up unnecessarily because they are loaning this money, in effect, to the government, interest-free. Farmers have been asking governments for years to end this red tape and cash flow problem. We have listened to their concerns.

Bill 106 will get rid of the old farm tax rebate program and replace it with a legislated low tax rate for eligible farms, set at only 25% of the residential tax rate. Owners of woodlots will also be assigned to this new farm lands and managed forests property class. They will pay the same low rate of property tax as farmers.

Through the Fair Municipal Finance Act, we're also supporting and protecting critical natural heritage lands. Under the existing conservation land tax reduction program, owners of eligible conservation lands are eligible for a 100% tax rebate. The rebate is in place because, generally speaking, conservation lands are not revenue-producing and have restrictions on their use. Replacing this tax rebate program with a property tax exemption will cut red tape and reduce administrative costs while continuing to recognize, encourage and support the long-term stewardship of these natural heritage lands.

The government knows that viable and successful local airports are essential to economic development, jobs and investment in Ontario. That is why in Bill 106 we are maintaining the tax treatment of airports when they were federally owned and operated. Like all other provinces that have airport authorities, Ontario recognizes the economic benefits of airports to the Ontario economy and will provide tax support. The municipalities where these airports are located will continue to receive the same payments they would have received if the federal government continued to operate the airports.

In putting forward the Fair Municipal Finance Act, we're putting into action our plan to bring fairness to the property tax system across the province. We propose to begin implementing the Ontario fair assessment system in 1998. The updated system, when implemented, would base property values on what properties are currently worth. The reassessment that is already under way is not starting from scratch. Much of the province has relatively up-to-date data from which property values can be determined. Municipalities in 25 of the 39 regions and counties have recently been reassessed. About 47% of the province's 3.8 million properties are valued at their 1988 or 1992 value. We are on schedule to finalize assessment updates by the end of December.

I would also like to inform the committee at this time that in order to provide the public with as much information as possible about the proposed Ontario fair assessment system, this afternoon I'll be releasing drafting regulations for public comment and review. I have brought copies of the draft regulations with us, which I will give to the clerk of the committee to distribute.

Bill 106 is about fairness, consistency, openness and accountability. It is about fair taxes for families who have just bought new houses and are struggling to pay off a mortgage. Bill 106 will mean they aren't paying part of someone else's share in addition to their own. It's about fairness for seniors and people with disabilities who are worried about whether they can continue to pay their taxes on their homes. It's about fairness for farmers, renters, small business owners, the people who own

conservation lands and everyone else who pays property taxes in Ontario. It is about making government more accountable to the people who foot the bills: the taxpayers in each community. It's about giving municipalities the autonomy they need and want so they can bring in these changes in ways that are best suited to their local priorities and needs.

All this, in turn, means Ontarians are getting good value for the taxes they pay, today and in the future. Bill 106 is about doing what's right for all Ontarians. It's time government took on this challenge. That's what our government is doing.

Once again I again thank you for inviting me here today. I look forward to hearing the advice of Ontarians at these public consultations as well as advice from the members of the committee. I might say, before I wrap up, we are certainly open to suggestions with respect to improvements of both the legislation and regulations, and I'd be interested to see what recommendations the committee brings forward.

The Chair: Thank you very much, Minister. Do you have time for a few questions?

Hon Mr Eves: Sure. I have to be in P and P at 2 o'clock, but we have a few minutes.

The Chair: We have five minutes for each caucus.

Mr Gerry Phillips (Scarborough-Agincourt): I have a paper here I wouldn't mind having handed out just because it's maybe easier to ask questions that way. I appreciate the minister being with us. His staff have been very helpful in briefings already and I'm sure will be.

I don't think there's any question that there is a need for reform of the property tax system. The challenge will be in the detail of this thing. As everybody says, it's in, "How well does this work?" as opposed to, "Should there be some changes made?" Frankly, it's so far a bit difficult for us, and I think over the course of the hearings we should get this fleshed out.

Just a couple of questions. The biggest change, or a big change, is on the business occupancy tax. I've been trying to work out some impacts of it because the only way I can really understand the bill is to say, "All right, what will it mean on properties?" I tried to take a look at a typical bank tower in Metro Toronto versus some kind of a bake shop or something like that. I talked to municipal officials, who have tended to say that their impression is that the revenue lost from the business occupancy tax will be recouped in all likelihood from the commercial and industrial sector, that few of them see putting it on to the residential property tax.

1340

If that is the case, as I understand it, a bank tower right now in Metro Toronto might be paying about $15 million a year in realty tax and another probably $10 million to $11 million in business occupancy tax. The business occupancy tax comes off. That revenue has to be recovered, but on the same basis from everyone. As I look at it, an organization like a bank tower would get a huge tax cut. According to the minister, the intent is that they're all taxed equally, but a smaller business would see a fairly substantial increase. As a matter of fact, the CFIB, Canadian Federation of Independent Business, raised that, as the minister will know.

This is an impact study done by myself of just a couple of properties, but it does show that those businesses that are paying the 75% business occupancy tax will see quite a substantial decrease, and those paying the 30% business occupancy tax quite a substantial increase. Is this consistent, Minister, with your own internal studies?

Hon Mr Eves: First of all, I'd say, Gerry, it will be for the local municipality to decide, once the BOT is eliminated, how they raise that revenue. You say you've talked to some municipal leaders who indicate that their choice will be to keep it inside that one commercial class. I would suggest to you that that won't necessarily be the case in every municipality in Ontario. Certainly in municipalities that value commercial enterprises, especially small commercial enterprises, as of some value to their community, I can't see responsible municipal representatives dumping that tax load on to smaller commercial properties.

We're also giving in this legislation, as you know, the ability for individual municipalities to charge a lower rate for smaller or less-valued commercial properties. I would be very surprised if a responsible municipal council or representatives or mayor did not respond to that opportunity that we are providing them in this legislation. So I don't think it is quite as simple as saying the bank tower — and we all know how well banks are perceived perhaps across the average community in Ontario. I think it's somewhat sensationalistic to say that the bank tower's taxes will now be paid by your small local bakery because they'll both be taxed at 50%. First of all, that will be a decision for the municipality. If the municipality thinks that's fair, then I guess that's exactly what the municipality will do.

Also, municipalities today are losing millions of dollars. There's $200 million, as we alluded to in the introductory remarks, that is lost in the province of Ontario every year — I would strongly suspect that the vast majority of it is right here in Metro Toronto — because they can't collect business occupancy tax, because as you know, tenants and businesses, especially the ones that are tenants, tend to move around. They disappear and the municipality has no way of collecting the tax, so they're losing a quarter of a billion dollars a year now. They're also losing in Metro Toronto's case well in excess of $100 million a year, and they've consistently been doing that for the last several years, because of appeals.

Both of those things will be dramatically reduced once this system is up and running. We're talking of hundreds of millions of dollars a year here. We're talking probably in the neighbourhood of $200 million a year just in Metropolitan Toronto.

So I don't think it's quite as simple as to say that those that are now paying business occupancy tax at a high rate will now have theirs come down and small business will go up. I don't believe that responsible councils and representatives will do that to small business, and I think they will be receiving substantially more money than they are now because the system is a lot fairer and up to date.

Mr Phillips: Can you give us some impact studies that you've done? As far as I can determine, a bank tower

will see these kinds of decreases, because if you take it from the 75% down to the average, it's 42%. I believe these are accurate, and they're almost the minimums. Can you give us a different set of figures that would suggest I'm not right here?

Hon Mr Eves: No, we haven't done any impact studies in this area, because as I just got through saying, it's up to the local municipality to decide how they're going to deal with this former business occupancy tax revenue. The ultimate impact study is of course going to be the reassessment of the province of Ontario, which process is well under way and will be completed by December of this year.

But in terms of shifting responsibility between different classes and determining whether or not they will avail themselves of the opportunity — I'm speaking of the municipalities now — of having a lower tax rate for smaller commercial or less-valued commercial properties, it's impossible to determine that until you know what the municipality decides to do.

Mr Gilles Pouliot (Lake Nipigon): Let me begin by sincerely apologizing for arriving late. We have a sort of extraordinary climate. We are a small group as members of the third party, and I was busy trying to learn the spelling of Filibuster Boulevard in the House. I also drew the wrong shift, Minister. But it's certainly a pleasure and thank you for —

Hon Mr Eves: Mr Pouliot, may I say at the outset that I have been in your place with a small caucus, and I understand.

Mr Pouliot: That's right, but you were busier with lakes and rivers for a shorter period of time. Thank you for your attendance, and members of your staff, and of course my colleagues at the committee.

When we look at the transition, at your proposal and at the example that Mr Phillips put forward of the so much maligned banks, but I must admit that they are not the hardest target, the bank tower in downtown Toronto will benefit by virtue of the elimination of what everyone agrees is not the best way to perceive money, that of the business tax. If you work at the bake shop, you get hit fairly big time already, but you'll have to carry more of the burden.

I've been following your career very closely for the past 12 years, Mr Deputy Premier and Treasurer, and if I was to guess — this is not like buying Bre-X; this is a lot easier here — will Ernie Eves end up in a bank tower when he finishes politics or at a bake shop, I'm putting my money on the bank tower, and I want to wish you well.

Hon Mr Eves: I have colleagues who may disagree there.

Mr Pouliot: Winners and losers. You have the industrial and large assessment getting a break. The jury will be out for some time as to whether it creates jobs or how much of it filters to the street. In lieu of that, the people who are the job creators, which is the commercial value, will inevitably have to shoulder more of the tax burden.

Your Premier has indicated that municipalities across the province should be able to deliver a 10% decrease at the residential level by the year 2000. Therefore, in your rush to download and to web and mesh the mechanism, the regulation that goes with it, you have decreed to reassess every property in the province of Ontario. The cumulative effect of the policies that you are enunciating, that you're putting through, makes it very, very difficult for municipalities to put yet more on the plate, more to assimilate, more to digest, and yet you conclude your statement by the repetitive lament or plea on the back of others. It's always easier for the municipality to deliver in accordance with your guideline as long as you don't have to do it yourself. You philosophize well, you're well-intended, but you forget to trust the mail system with the cheque or you send fewer dollars and you wish them well.

I welcome the redefined methodology. Time moved on and we didn't. It's not the best way. Even the Fair Tax Commission acquiesced to that. But in lieu of that, you readily admit that the bank tower, the people who can best defend themselves, will be able to run away faster than ever before. It will jeopardize the middle class further. You will see a further erosion at the residential and commercial level; make no mistake about it. In the case of the city of Toronto, you will put the city of Toronto, over a short period of time, under a state of siege, because what you're proposing via the reassessment and the business tax does not stand alone.

1350

I would like you to tell us, since this is not revenue-neutral, this is not a fair exchange — no government in the western world would risk politically what you are risking if it were just a change, because you are not that well-intended. Charity begins at home. Why do you do it? You have a $5.4-billion responsibility with your third and fourth instalment when your 30% tax cut is delivered, and you have $11 billion to reconcile over a period of one term of office, four to five years, assuming.

So I find that the downloading has taken on extraordinary proportions, that deliberately and systematically, because of your policies, you have hurt those who can least defend themselves. You've simply passed the buck.

Mr Phillips: There was a question there somewhere.

Hon Mr Eves: Was there a question there?

Mr Phillips: "Yes or no?"

Hon Mr Eves: Thank you, Gerry.

I think it was an eloquent statement that the honourable member delivered, but the reason why we're doing this, quite frankly, is to restore some element of fairness in the property tax system in the province of Ontario. I don't think anybody could look at those varying differentials on the map of Ontario and concur that some people should be paying on 1940 values and others should be paying on 1992 values. That's just totally unfair, totally inequitable and 50 years out of date in some cases. Some people are paying far more than their share and some people, quite frankly, haven't been paying their share for some decades upon decades of time.

I don't think, as I explained to Mr Phillips in my response to him, that it's as simple as to say that the small bakery example that you both chose is a fair one, because I firmly believe that responsible elected municipal people such as the mayor of Toronto and others will avail to small commercial properties a different and lower tax rate. I'd be very, very surprised if those people who

champion the underdog every day in the media are not going to avail themselves of the opportunity that we are going to provide to them through Bill 106.

You talk about what other jurisdiction in the world would think about doing this. Well, in British Columbia, the party in power there — you have some knowledge of their political background — has an actual value system that quite frankly, in my opinion, will not be quite as good as the one we're introducing because they do not have a three-year rolling average to account for fluctuation in property values year over year. But their system has worked quite well.

All you have to do is compare the appeal rate in their system and the success of the appeal rate in their system to the appeal rates and successes of appeals in our system to readily see that in Metro Toronto you have 40% of the properties under appeal every year and Metro Toronto losing in excess of $100 million in revenue every year through property assessment losses alone, and in B.C. that number is less than 2%. Why is it less than 2%? Because everybody is treated fairly and equitably on the same basis. If you have a property that was sold for the same amount in the same community on the same street, they're all evaluated at the same time and they pay exactly the same tax. That reduces dramatically the likelihood of successful appeals in the system, and once this system is up and running, it will become far more fair and equitable for everybody.

Will there be adjustments? Absolutely there will be adjustments, and we've tried to accommodate for those as best we can in Bill 106 by phasing in over eight years, by giving municipalities the ability to seek additional classes if they so choose from the provincial government. We're expanding a number of classes as it is; that's at six. But we do not have a closed mind with respect to municipalities coming forward and making additional requests, and we do not have a closed mind that this is the only system, the only exact way that this fairer system will work.

You talk about $11 billion, the reason for some of the steps the government has taken. Obviously we came to the conclusion shortly after the election in June 1995 that we could not continue on the same road that the province was going down. That year, as you know, we faced an in-year deficit of $11.2 billion. Are some of these decisions easy? No, they're absolutely not. Are they difficult? Absolutely. Are some of them going to adversely affect individual Ontarians? Yes, they are. Do I like that? No, I don't. But the reality is that there won't be a future for anybody in the province if some of those things aren't dealt with. I understand that there may be different political philosophies as to how you deal with those problems, and I understand that yours would not be the same as mine. However, I can assure you that this government is doing what it thinks is most appropriate to improve the situation.

Ms Isabel Bassett (St Andrew-St Patrick): Minister, I was going to ask you about the Ontario fair assessment system, how it would make things fairer, but since you've answered Mr Pouliot, I'll move on to a letter that's been reported where Toronto Mayor Barbara Hall claims that the city of Toronto will lose money over the next two years because she claims that Bill 106 will shift the financial burden of tax losses caused by successful property tax appeals on to municipalities. I wonder if this is true and if you could elaborate on it.

Hon Mr Eves: I not only received the mayor's letter but I also of course read the appropriate articles that appeared in various media with respect to this.

Our viewpoint is that the city of Toronto's interpretation of Bill 106 is not correct, that section 421 of the Municipal Act of Ontario will permit a municipality to recover taxes that the municipality refunds to the owner of the land due to loss of an appeal from the school board or the upper-tier municipality. Section 80 does not prevent municipalities from recovering tax losses arising from successful property assessment appeals.

If they would like some further clarification or strengthening of that interpretation that the ministry has with respect to those sections, we'd be more than prepared to look at that.

Mr Joseph Spina (Brampton North): Minister, thank you for the presentation.

One of our government's goals, as you know, is to create an environment in this province for small business, and as the PA responsible for that, elements of this bill are of particular interest to me.

I disagree with Mr Phillips's comparison, because obviously he's comparing apples and oranges, but I'd like a little more information on the flexibility and the guidelines that we are putting into this bill that will allow the municipalities to give smaller businesses a fairer shake as a result of the removal of the BOT, I guess the changes in some of the categories in commercial assessment, and we all know that there are a whole lot of other factors that really influence the actual assessment of each individual property.

Hon Mr Eves: First of all, as I tried to explain both in my opening remarks and in responding to Mr Phillips, municipalities will now have six different property classes to choose from. We're not rushing in to create more property classes, but we've certainly not precluded the possibility of somebody making a good case to create additional property classes.

But more basic than that, we also are going to give them for the first time the opportunity to have two different rates of taxation for smaller or more modestly valued commercial properties. I would be very surprised if most municipalities do not avail themselves of that opportunity, because I think everybody understands that small business is what drives the economy and the engine of Ontario's economy. So I fully expect that most municipalities will avail themselves of that opportunity, and that will have a very beneficial effect on the small business community.

It depends what municipality you're in, of course, what proportion or ratio you have of property taxpayers vis-à-vis commercial or industrial taxpayers, but suffice it to say that in some municipalities they may decide to forgo a portion of what is now business occupancy tax revenue. Some of them are losing tremendous amounts of money as it is now because they find business occupancy tax very difficult to collect. They have some huge administrative problems with respect to business occupancy tax. I

think this will be a much fairer system at the end of the day.

Commercial and industrial ranges and parameters: We have not totally decided on those ranges yet but we are receiving advice on that. We are going to be setting up a commercial and industrial panel to advise us on those types of things in the very near future.

1400

I think at the end of the day the question that you still have to come back to is: Is our current system fair or not? I think the answer to that is a resounding no. As I said, governments of all three political stripes — one that I was a part of for a period of time, the Bill Davis government; the David Peterson government; the Bob Rae government — all three of those governments struggled with this issue. All three of them moved to address the issue and at the end of the day, quite frankly, all three of them backed off at the 11th hour because of political opposition.

It is the fair, equitable and right thing to do. Are there going to be some individual problems that arise as a result of it? Absolutely. But at the end of the day, everybody in Ontario will know that they are all being treated the same, they're all being treated in a much more fair and equitable manner than they are today.

The Chair: Thank you very much, Mr Minister. We appreciate your time before the committee.

As we move to the ministry staff for an hour-and-a-half presentation and questions, the clerk has distributed to you the subcommittee minutes of our last subcommittee meeting, held April 2. If there are no problems with those minutes, could we pass those minutes at this time? Would you so move, Mr Spina? Mr Pouliot.

Mr Pouliot: With respect, Mr Chair, I'm quoting, "That the deadline for oral presentations for Thunder Bay, Ottawa, Chatham, be extended to 4:00 pm," and I match with what Mr Carrozza, our clerk, has mentioned in terms of how we get from one place to the next next week. The last hour when a flight can depart on our original proposal was at 4:30 pm. You're extending the oral presentation to 4. Your time to get to the airport is —

The Chair: I think we're all right. Our last presentation will at finish 3 and I think an hour and a half to get from the hotel to the airport, which is in the same vicinity, is a reasonable time frame. I will endeavour to ensure that we do catch that flight.

Mr Hudak has moved. Are all in favour? The subcommittee's report is approved.

MINISTRY BRIEFING

The Chair: I would now like to introduce the staff for the Ministry of Finance: Marion Crane, director of tax design and legislation. Marion, welcome to the committee. I will leave it to you to introduce any other staff members that you have brought along. If you would do so before they start to speak so that Hansard will record their names properly, I'd appreciate that. You have a presentation first and then we'll take questions.

Ms Marion Crane: Yes. I'd like to introduce Tom Sweeting, who is the director of the taxation policy branch. He will begin the presentation today. Elizabeth Patterson, the assistant deputy minister of the property assessment division, will be joining us shortly. Tom will start and Elizabeth will carry on from Tom.

Mr Tom Sweeting: We just have a technical glitch here. I'll continue without the benefit of slides, if that's what the Chair wishes, or we can wait.

The Chair: That would be fine, please.

Mr Sweeting: Essentially, the minister has indicated to the committee the rationale and the reason for the changes that are proposed to the Assessment Act and the Municipal Act through Bill 106. What we're looking at is a series of changes that will provide for a new assessment system for the province, an updated assessment system, as well as provide new tax policy options for municipalities. Bill 106 is a first step in the legislative process and will be followed by further legislation. Generally speaking, the provisions of Bill 106 will be effective for the 1998 taxation year.

Ontario's property tax system is, as the minister said, unfair, out of date and complex. Why is it that way? The main reason it is that way is because the assessments in the province are out of date. Many municipalities have assessments that have not been updated for a number of years; many have not been assessed at all since the province has taken it over. We have many different base years, all of which contribute to a different value on properties.

About two thirds of the municipalities have relatively up-to-date assessments. In fact, 722 of the 775, or 93% of municipalities, have been reassessed since 1970. Some 402 of those municipalities have been updated in 1988 or 1992 and they are updated regularly. Another 119 of those municipalities were updated in 1988 or 1992, one-time, and 201 of the municipalities are 1984 or older and they're one-time reassessment. In addition, 53 municipalities haven't been updated at all since 1970.

Another way of looking at the state of the assessment system is in terms of the property values and numbers of properties: 53% of the properties in the province, two million properties, have assessments that are out of date, they're more than 10 years old, and more than a quarter of these properties are in Metropolitan Toronto. In terms of assessment base, 64% of the assessment base in Ontario is out of date, almost half of which is located in Metropolitan Toronto.

When assessments no longer reflect current values, then what you will end up with is a system, as the minister said, where similar properties can have different assessed values, which creates an unequal and unfair distribution of taxes. If you look at a couple of examples here, and these are hypothetical examples but they are known to occur with regularity in certain places, if you had two properties in the same neighbourhood that were worth $295,000, two houses, it's quite possible that the owner of house A would see an assessment something like $8,000 on his or her property, would then pay a residential mill rate assumed to be 460 mills here and pay $3,600 in taxes. The owner of house B, a $295,000 property in the same neighbourhood, may have an assessment of $6,000 on that property. Same residential mill rate, different tax: $2,700.

Inequities like this become embedded in the system when the values of assessments are not updated, because property values change over time in relation to one another. The two properties in question here today have the same value. At some time in the past, they didn't. What a failure to update fails to recognize is that as preferences change, as what people are willing to pay for properties change, the values of the properties change and the tax system should be keeping up to date with that.

1410

Similar inequities exist for business properties. Again, we take a $295,000 property. This time it's a business property, assuming in one case that it's a dentist's office, in another case it's a clothing boutique. This time in calculating the taxes there's yet a different assessed value for business A than was the case for either of the residential properties we looked at on the previous slide. There's also an additional business assessment through the business occupancy tax, giving rise yet again to another substantially different amount of tax. Business B again has a different assessed value. Because of the way assessment values have grown, it does not have the same value as the previous property, even though it is worth the same amount of money in today's terms. The business assessment is different because in this case we're talking about a clothing boutique, as opposed to the earlier version. They pay a lower amount of business assessment, they pay a lower amount of business tax and in total they pay a different amount of property tax than the business across the street that's a dentist's office.

When assessments no longer reflect current values, you also are going to find business competition problems. Very similar businesses can find themselves paying different amounts of tax, even though they're located in essentially the same neighbourhood and competing with one another. As well, as was indicated previously, lots of appeals get filed and the stability of the local tax bases is jeopardized by a high number of appeals.

The other main way that the current system is out of date and unfair is the way it treats municipalities. The present system limits municipal choice. Currently, properties are taxed at only two rates. Municipalities essentially have the choice of setting a tax rate for the amount of money they need to raise, and the tax rates are legislatively required: one rate for residential, one rate for commercial, and they are 85% to 100% in the relationship. So there's very little opportunity for municipalities to adjust tax burdens or tailor tax burdens to their local needs.

They do have the ability to affect tax burdens by choosing to have a reassessment. They have the opportunity to have a reassessment by property class under the current system, whereby they would maintain historical relationships. They would equate the values of properties within a class, but they would pay the same amount of tax as a class before reform as after. Or they could have a full market value reform, in which case all properties go to the same base and all properties pay the same relative amount of tax, other than the 15% differential.

These are two options that are available, but they're somewhat restricted options available to the municipality. So there's not a lot of opportunity for a municipality to respond to the circumstances that we've been pointing out that can arise when assessments are out of date.

That's the reason why the old system is being replaced. I think I'll turn it back over to Marion to continue.

Ms Crane: Elizabeth Patterson, the assistant deputy minister of the property assessment division, is going to give us an overview of what's involved in the property-wide reassessment that's going on right now and some of the steps involved in that.

Ms Elizabeth Patterson: As Marion has indicated to you, I'm not a person who deals with taxation policy or assessment policy; I'm a person who deals with administering assessment. The task that we have been handed, that is, the revaluation of 3.8 million properties that must be assessed at their current value for taxation in 1998, is a large one. The ministry thought it might be useful to know how we're proposing to do that.

Of those 3.8 million properties, about 3.3 million are residential properties — they're probably the easiest properties to value — there are about 43,000 multi-residential properties, basically apartment buildings, and 200,000 commercial and industrial properties. There are also, for example, other properties that don't fall into those classes, like churches and hospitals and some other categories of property.

Bill 106 requires that all property be assessed at its current value. I guess for the benefit of the lawyers in the room, that's defined as, "The amount of money the fee simple, if unencumbered, would realize if sold at arm's length by a willing seller to a willing buyer." For those of you who aren't lawyers, "fee simple" means all the ownership rights there are in a piece of property, and the phrase "if unencumbered" is designed to exclude from the calculation circumstances like rental or mortgage encumbrances. We're looking at the value of the whole property if the property were sold at arm's length, that is, not between family members or a company and one of its shareholders but between two parties who aren't acquainted with each other, where both are willing. For example, someone who has just accepted a job in another province and has to sell his house on a very quick basis or who is just about to see a mortgage foreclosure occur on his property may be operating under slightly different circumstances in negotiating a sale than he otherwise would.

For all jurisdictions that choose value-based assessment, there are three standard approaches that are used both by assessment professionals and by private fee appraisers. The one that applies to most of the properties, particularly those 3.3 million residential properties, is comparative sales. It is the most direct method of establishing value. What it basically does is look to the circumstances of properties that have sold and establish the values of properties that haven't sold by comparison. Adjustments have to be made for differences between the property being valued and the sold property. Traditionally that's been done by removing the cost of certain amenities that aren't present in the property being valued. There are new methods, however, of doing this and I'll be speaking to those in just a minute. As I said, residential properties are usually valued in this way.

There are some properties — think about shopping malls and large office buildings — that aren't particularly adaptable to being valued in this way. In those circumstances we're attempting to determine what a potential investor would pay for the income that is generated by those income-producing properties. We will analyse the potential income and the operating costs and then use what's called a capitalization rate, a multiplier which is determined in the market. If the market is prepared to pay 10 times annual rent to acquire a building, then 10 times would be the capitalization methodology. That's basically the way in which those malls and office towers are valued.

Some properties that are owner-occupied are somewhat unusual. Think about the local GM plant, large industrial properties. Those are based on cost, and that is actual construction cost, we gather information on that, and there is a provision for depreciation for adjustment for the age of the property.

I spoke to you about another method of sales comparison. The assessment industry, like every other industry in Ontario, has been affected by the use of new technologies. The new technology in the assessment business is called multiple regression analysis. That's basically the use of a computerized statistics-based program to establish the value of properties based on sales information. What it permits us to do is to isolate various elements of the value of a property that's sold, whether it's a location, being located in a good neighbourhood, whether it's amenities like being close to a shopping mall or being on a cul-de-sac street or on a ravine, whether it's structural elements, the sort of archetypal marble bathroom with solid-gold faucets. It lets us determine which of those elements are relevant to value and to quantify the impact. We can then build models, formulas that can be applied to unsold properties.

What are we engaged in now in your constituencies across Ontario? Before you can establish value, you must gather information. We're gathering information through on-site property inspection, through sending written requests for information or to confirm existing information; we're investigating sales; we're building manuals of construction costs; and we're looking at local modifiers, which says that if you're in a northern community there may be structural requirements like insulation that are greater in norther communities than they might be in the south. There also may be additional costs associated with transporting construction materials to northern communities, so the local modifiers might be higher there. We're looking at land values based on sales of vacant land, we're collecting and analysing rent data for income-producing property and developing the capitalization rates I spoke to you about. We have quality control measures and fine-tuning measures in place.

At the moment we have about 71% of the sales investigation complete. That's the information we gather first in order to construct our models. We have about 37% of the on-site inspections complete and will expect to pick up more of those over the summer, as we employ summer students and as properties are easier to get to and as we use some private sector contractors we've recently retained to do some sales investigations on our behalf. We're also mailing out and seeing returned about 57% of the income and expense questionnaires upon which capitalized income values will be based.

1420

It's important to remember that where there have been attempts at reassessment in the past that have failed, like in Metro Toronto and in Brampton, for example, while there's not been an improvement in equity or fairness — and Tom has listed those as not contributing to a better system in Ontario — they do provide us with information. In Metro Toronto, as a result of appeals, as a result of failed attempts at reassessment, we know a good deal about the properties and it may not be necessary for us to gather data.

We have about 1,600 full-time staff in assessment and we have about 472 contract employees who are working with us, as the minister said, to produce values for all these properties by December this year. Following that, assessment notices will be issued to every property owner in Ontario so that they can determine the new value that's been placed on their property. We will be holding open house sessions in every community where a taxpayer can sit down with an assessor and determine how their assessment was valued, and ultimately we'll be returning the assessment rolls to municipalities by April 30, 1998.

I guess there's one more date that's important. As you know, through the extension of the appeal period from the date they receive their assessment notices in February and March till 60 days after April 30, 1998, taxpayers will have an opportunity to resolve any concerns they have about their property assessment without having to resort to a tribunal process in order to get the issue resolved. Thank you.

Ms Crane: Now I'm going to continue with an overview of the provisions of the bill that the minister spoke about. I'm going to give a little more detail on what's contained in Bill 106 and the main principles of the bill.

The main features of the new property assessment system and tax system are regular or annual assessment updates using current value, property classes for all properties, the replacement of the tax rebate programs with lower tax rates, the elimination of the business occupancy tax, municipal power in setting tax policy, phase-in provisions, property tax deferrals and a streamlined property assessment appeals system. I'll deal with each one of these in turn.

Assessment updates using current value: The proposed assessment system is referred to as the Ontario fair assessment, OFAS. Under OFAS, current value assessments would be used to value properties in Ontario, and in 1998 assessment would be based on 1996 values. Elizabeth has explained how current value is defined and what it means: basically the amount of money the property would realize if sold at arm's length by a willing seller to a willing buyer.

Eligible farm lands and managed forests and conservation lands would be assessed on current value reflecting their current use, which may be less than the amount of money the property would realize if sold for non-farm use at arm's length. In exceptional circumstances, a municipality can request that the Minister of Finance

assess certain groups of property in their current use only and not their current value.

The system would be completely updated with a new set of values that treats properties across the province in a fair and consistent way. The updating of assessments would put every property in Ontario on the same valuation date: June 30, 1996. This new property assessment and tax system would be effective January 1, 1998.

These updated assessments would create a more understandable property tax system; that is, you're going to be able to see the assessed value of your property in a reflection of something that is in a form understandable to you. This assessed value times the tax rate will give you the new property tax. For example, a residential property valued at $100,000 would have an assessed value of $100,000, and a commercial property valued at $100,000 would have an assessed value of $100,000.

The new system provides for regular updates. This chart shows how often the updates will take place. For the taxation years 1998, 1999 and 2000 the valuation date will be June 30, 1996. For 2001 and 2002 the valuation date will be June 30, 1999. For 2003 the valuation date is June 30, 2001. For 2004 and subsequent years the valuation date will be June 30 of the prior year, with annual updates continuing every year.

As well, the proposed legislation provides for rolling averages. Because the new system is value-based, it will reflect the ups and downs of the marketplace, but the three-year rolling averages will serve to moderate to a significant extent the changes that will take place in any one year.

The rolling averages begin to be implemented in the year 2005, with values from 2005 and 2004 being averaged for the year 2005; and for 2006 and subsequent years the assessment is the average of the current values from the taxation year and the previous two years.

As well, Bill 106 provides for six standard property tax classes and every property will be assigned to a property class. The standard six property classes are residential/farm, multiresidential, commercial, industrial, pipeline, farm lands and managed forests.

All property classes are to be prescribed by the Minister of Finance. In the draft regulations which you received a copy of today some of these property classes are defined, and there will be further ones defined as well.

The Minister of Finance has the authority to add additional classes and to define what is included in property class. For example, the new multiresidential class will be another class which will be defined by the Minister of Finance.

Some of the properties that will be included in each of these classes are as follows: The residential/farm property class would include such properties as single-family residence, residential condominium unit, farm residence, and land owned and occupied by a religious organization. The multiresidential property class would include land used for residential purposes consisting of seven or more self-contained units.

The industrial class would include land used for or in connection with manufacturing, producing or processing anything; generation, production or transformation of electricity; mining, quarrying, producing oil or gas or extracting anything from the earth.

The pipeline class would include pipelines for the transportation, transmission or distribution of gas or liquid hydrocarbon or any product or byproduct.

The farm lands and managed forests class are not in the draft regulation that you received today, but we will be issuing draft regulations defining these classes within the next month. Basically in these classes will be the properties that were eligible for the farm tax rebate and the managed forest rebate that is in existence right now and that would be replaced by Bill 106.

Eligible farm lands would include such things as farm lands and outbuildings used in a farming business providing a gross income of at least $7,000 in a normal production year.

Eligible managed forest would include a forest that is owned by a resident who has applied to have the woodlot designated as a managed forest, and it would be four hectares, or 10 acres, or more in size.

The commercial class would include land not included in any other class.

Of the special applications that I mentioned, one of them is the new multiresidential property class. Municipalities could opt, by bylaw, to use the new multiresidential property class for newly constructed rental apartment buildings with seven or more units. Municipalities could set a tax rate for new buildings constructed after December 31, 1997, within the provincial range of fairness for new multiresidential property. A property included in this property class would remain in the class for eight years, after which it would be moved to the multiresidential property class.

For mixed-use properties, the current value of mixed-use properties would be divided among the different uses, and the appropriate tax rate would apply to each portion based on the property class to which it is assigned. For example, if there's an industrial mall occupied by light industrial businesses and commercial tenants, right now there is one taxation rate, the commercial-industrial tax rate. Under Bill 106 there would be two tax rates. It would be 70% in the industrial tax rate and 30% in the commercial tax rate.

Railways and utility rights of way: The existing practice is to value rights of way on the basis of abutting land values. Changes made by the bill provide for the method of assessing railway and power utility rights of way to be prescribed in regulation.

Another thing that Bill 106 does is eliminate the rebate programs which I've mentioned previously: the farm lands, managed forests and conservation lands rebate programs.

The current practice is that participants pay their property tax and then apply for a rebate. The rebate amount is 75% of the total property tax for farm lands and managed forests and 100% of the total property tax for eligible conservation lands.

1430

Farm lands and managed forests properties: There will be a new property class which I mentioned for properties now receiving the farm tax rebate and the managed forest tax rebate, and the tax rate for these classes will be 25%

of the residential rate. The eligibility for land to be determined in these classes will be determined by the Ministry of Agriculture, Food and Rural Affairs and the Ministry of Natural Resources. The current value assessment of farm lands and managed forests would reflect their current use.

Eligible conservation lands would be exempt from property tax. These lands are identified by the Ministry of Natural Resources and would include land now eligible for the conservation land tax reduction program, such as provincially significant wetlands and areas of natural and scientific interest, areas designated as escarpment natural area in the Niagara Escarpment plan and other conservation lands owned by charitable and conservation organizations which contribute to provincial objectives.

Eliminating these rebate programs and reducing property tax would save $165 million in costs, reduce red tape for participants, and it doesn't tie up the owners' capital unnecessarily. Instead of paying their tax and waiting for a rebate, the tax reduction comes up front.

The minister also mentioned the business occupancy tax. The business occupancy tax is paid by the business occupant, not the owner of the property, and it's separate from the realty tax. As the minister mentioned, it was established in 1904 and based on a rate structure that no longer makes sense. In 1995, the business occupancy tax raised $1.6 billion. On average, the business occupancy tax accounts for 28% of the total property tax paid by business.

The way that the business occupancy tax is calculated is by taking the assessed value of the premise occupied by a business and multiplying it by a percentage rate applicable to the business. The percentages applied to various businesses for the business occupancy tax range from 25%, which is the rate for parking lots, to 75% for distillers. If you look at the chart that shows the ranges from 25%, 30%, 50%, 60%, 75%, it's rather difficult in today's times to look at these rates and say that they make any sense.

The problem with business occupancy tax is that it's not fair. There's no rationale for why one rate is applied to one business and a different rate to another business. It's difficult for taxpayers to understand, it's relatively expensive to administer — the costs are about $5 million — and it's difficult for municipalities to collect because some businesses move or go bankrupt. At the end of 1995, about $200 million in business occupancy tax was in arrears. It's being eliminated because businesses and municipalities have long been asking for the elimination of this arbitrary and outdated tax. Eliminating this tax is one more way to ensure less costly government.

How will the business occupancy tax be recovered? The business occupancy tax is a significant source of revenue for municipalities; $700 million in 1995 and 11% of total property taxes for municipal purposes. Municipalities, as the minister mentioned, would decide whether or not to recover equivalent revenues through property tax from any or all property classes. They could recover less revenue or the same revenue. They could recover the same revenue from just the commercial and industrial property classes or they could recover the revenue proportionately from all property classes. The municipalities will have the ability to decide how they're going to recover it.

A number of important provisions in Bill 106 deal with the power of the municipalities in setting tax policy. The new current value system requires municipalities to set a tax rate for every class of property. Municipalities can choose different or variable tax rates for different property classes. As Tom mentioned, under the present system there are only two tax rates, residential and commercial, and residential must be 85% of the commercial rate, so there's very limited flexibility right now.

The tax rate is a percentage of the assessed value of a property used to calculate property tax. Under the new system the municipalities would continue to establish their financial requirements to provide services for their citizens and the tax rates would be set to raise the required revenue.

In setting tax rates, municipalities will be required to follow provincially set tax ratio ranges. Now tax ratios are the relationship between the tax rate on one class of property and the tax rate on the residential farm property class, which is the benchmark. The tax ratio for the residential/farm class is 1.0. So if we look at an example where a $200,000 residence pays $2,000 in property tax, a $200,000 commercial property pays $6,000 in property taxes, the ratio for the commercial property class will be 3 to 1.

The table on the following page gives an example of how tax rates and ratios would work. If we assume that the residential\farm tax rate is 1.5% and the benchmark for the residential farm class is 1, this table shows the tax ratios of the different classes and the tax rates that would be equivalent.

For 1998 the Ministry of Finance would determine these transition or starting ratios, and these will be set out in regulation. The transition ratios are the actual tax ratios that exist as of January 1, 1998, and are based on the effective tax rate of each property class. The way they are determined is by taking the total 1997 taxes paid for the property class and dividing it by the sum of the new current value assessments for that property class. The transition ratios would reflect the status quo of the new property classes and would be in place until a municipality passes a bylaw to set out new tax ratios.

As I mentioned previously, the province will define a tax ratio range for each class of property. These parameters are set by the province to represent the fair degree of tax variation between a class of property and the residential class. Transition ratios that are outside the ranges could be retained, but any further changes in the ratios must move closer towards the ranges.

There's an example here. If the provincial range for a class was from 2 to 3, if the transition ratio was 2.5, a municipality could keep the ratio the same or move the ratio up or down within the range because that municipality is already within the range. If another municipality had a transition ratio of 3.5, they could leave their ratio at 3.5. If they wanted to move it, they'd have to move it closer to the provincial range, which would mean that they could move it, for example, to 3.3, closer to the range, but they couldn't move it any farther away. If a

municipality had a range that was lower than the provincial range, you could keep the ratio the same or move the ratio closer to the provincial range. If they decide to move it, it has to be moved up in this case.

Where there is an upper-tier municipality ie, a county, a region or a district municipality, the tax ratios are established by the upper-tier municipality. An upper-tier municipality may delegate the authority to establish the tax ratios to its lower-tier municipalities. But all of the councils of the lower-tier municipalities must consent to the delegation before it is effective.

If the upper-tier municipality sets the tax ratios, then similar properties with similar values would pay the same tax for upper-tier purposes in all municipalities within the upper tier and the same tax for lower-tier purposes within the lower-tier municipality.

If the lower tier sets the tax ratios, then similar properties with similar values could pay different upper-tier costs than properties in another lower-tier municipality within the same region or county. In this case, where the lower-tier municipality sets the tax ratios, an apportionment formula would have to be agreed upon by the lower-tier municipalities and the upper-tier government to distribute upper-tier costs.

Municipalities not in a tiered structure, ie, a separated municipality such as the city of Windsor, will establish their own tax rates.

Now there are some exceptions to these tax ratio range limitations. The Minister of Finance could pass a regulation allowing a group of municipalities with a tax ratio-setting power to establish a certain tax ratio for each class of property. For example, municipalities may decide they wish to move to the same or a common ratio to improve tax equity, reduce tax competition and decrease barriers to further amalgamation within a certain geographic area.

If we look at an example of a certain property class where the provincially mandated range is 2.0 to 2.75 and you have three municipalities, A, B and C, with transition ratios of 2.5, 3.0 and 3.5 respectively, under the normal provisions of the legislation, if they all wanted to move to the transition rate of 3.0, that wouldn't be possible. This section and the regulation passed under the section would allow the municipalities to move to this common ratio of 3.0 if those chose to do so.

1440

For the purposes of this section, a group may consist of several upper-tier municipalities; several upper-tier municipalities and a single-tier municipality; or several single-tier municipalities. As I mentioned, these are exceptions to the rule for the normal way the tax ratio works. In order for this exception to the normal rule to occur, again council of each municipality within the designated group must request such a regulation through a bylaw specifying the property class and the applicable tax ratio.

Another important part of the Ontario fair assessment system is the phase-in provisions. Municipalities could pass bylaws to phase in tax increases and/or decreases arising from the reassessment. The maximum phase-in period is eight years. The phase-in program would be determined by the upper tier where there is a two-tier structure, or the councils of each local municipality where there is not a two-tier structure.

There are a number of options that will be available to municipalities with regard to the phase-ins. They could have phase-ins for all or some classes, different phase-ins for different classes. Tax increases could be phased in at different rates than tax decreases. There could be an even distribution of phase-ins or they could be accelerated at the front end.

In addition, there are provisions for property tax deferrals. Municipalities could defer assessment-related tax increases on residential properties. Municipalities would be allowed to give tax deferrals to owners, or their spouses, who are low-income seniors or low-income persons with disabilities, and "low-income senior" and "low-income person with a disability" would be as defined by municipal bylaw.

Municipal bylaws, in addition, could set a rate of interest for deferral up to market rate and they could also stipulate the conditions for repayment of the deferral.

One of the other provisions of Bill 106 which the minister also mentioned was the new assessment appeal process. In the current process there are two levels of appeal to hear complaints concerning facts and methods used in determining assessments: the Assessment Review Board and the Ontario Municipal Board.

Any person, including a municipality or school board, may appeal to the Assessment Review Board on factual matters and any decision of Assessment Review Board can be appealed to the Ontario Municipal Board. If an Assessment Review Board decision is appealed, there's a completely new hearing on the facts and law at the Ontario Municipal Board.

The proposed process would have the Assessment Review Board be the only avenue of appeal on questions of fact. The Ontario Municipal Board would no longer be an avenue of appeal and it would be eliminated in 1998 as an avenue of appeal for assessments. Decisions made by the Assessment Review Board on matters of fact would be considered final.

At present, 94% of Assessment Review Board appeals are resolved at the Assessment Review Board level. In the new process, taxpayers and assessors would be required to try to resolve the matters before the Assessment Review Board becomes involved.

Where the assessor and taxpayer reach an agreement on a change to an assessment or classification, and the municipality does not object, the Assessment Review Board would make the change with no hearing or fee required, a much simpler system than the present system. If no agreement was reached, or the municipality did not agree to the change, the matter would be heard by the Assessment Review Board and payment of a fee would be required by the party complaining.

The deadline for appeal would be extended from the current 21 days to 90 days to facilitate the more informal first stage of the process. An exception to this is that in 1998 there is a 60-day appeal period. The Assessment Review Board or any party to a hearing before the Assessment Review Board could apply to the Divisional Court on a question of law.

Finally, as the minister mentioned, Bill 106 deals with the Canadian airport authorities and the transfer from the federal government to various Canadian airport author-

ities, which are non-profit organizations. There are going to be five airports in Ontario that are transferred to Canadian airport authorities. One has already occurred, the Greater Toronto Airports Authority. Sorry, two have occurred; the Ottawa airport has also been transferred. There will be three more: Thunder Bay, Sudbury and London.

What Bill 106 does is continue the property tax treatment these airport properties were receiving when they were owned by the federal government. They're now leased by the Canadian airport authority so in effect these airport authorities are paying the same amounts to the municipalities that the federal government would have paid before as grants in lieu.

Finally, one further change that's anticipated to the new property assessment system is that the responsibility for assessment delivery would be devolved to the municipal sector on January 1, 1998, and presently discussions are under way as to the type of structure that would be in place. Thank you. Any questions?

The Chair: Thank you very much. Are there questions for the staff? Can we start with Mr Phillips? What is your pleasure? We have 40 minutes. Shall we do two rounds of six minutes each? How's that?

Mr Phillips: Sounds good. On page 31 you mention the business occupancy tax, $700 million for municipalities. I gather the other $900 million goes to education currently for business occupancy. Is that true?

Mr Sweeting: That's true.

Mr Phillips: Can you help us on how this is going to work in the future? We're getting asked how municipalities should plan in meeting their financial obligations to the province for the educational portion of business property tax. The reason is that if they're going to be asked to give the same amount of money as they have in previous years, or if there's going to be a uniform mill rate, it has quite a huge impact on their potential revenue. Can you give us an answer of how the province plans to — I guess it's $3.2 billion, is it? Is that the amount of money right now raised off business property tax for education that the province is going to want?

Mr Sweeting: The current amount of money raised from the commercial and industrial tax base from commercial properties is $3.1 billion, I think is the number. That is the current number. In terms of your question of what's the outlook, the government still intends to consult further and get more input on what tax rate should apply for education purposes.

There has not yet been a decision to enable municipalities to respond to the choices they face in terms of how to raise revenue. The government will be bringing forward legislation and advice at a later date, once it's done its consultation process on these particular rates of education taxes.

Mr Phillips: One of the problems we're going to have, I think, as we try and deal with this bill is that the province is going to send a bill to the municipalities for $3.1 billion, at least, for education. They're going to say, "You send the cheque over to your local school board."

I'm trying to figure out, we're being asked, is it going to be a uniform mill rate across the province? Is it going to take the same amount of money as you used to pay? The reason it's all very important is that municipalities, trying to figure out the impact of all of this, are having real difficulty. Will we know before we're asked to finish debate on this bill how the province plans to handle the education portion?

Mr Sweeting: The issue of whether it will be a uniform mill rate, which was what the Crombie panel recommended — that is an option, but it has not yet been determined whether alternative options would be more appropriate. As I said, the government would like to consult some more on that particular question. I'm not able to answer whether the consultations would be complete by the time you've rendered your views on this particular matter, because it's still not certain at what time the process for dealing with the C and I rates will start up and when it will finish.

1450

Mr Phillips: I'm very curious about the business occupancy tax and the $1.6 billion that has to be recovered. You're probably in daily contact with municipalities about how they're going to implement this. The government says there is a range of options. You could put it on the residential property taxpayer, but people I've talked to suggest the most likely event is recovering it from the commercial and industrial base. Can you give us any insight on what you think, or what your conversations with municipalities indicate how they'll recover it?

Mr Sweeting: I can't give you any insight in terms of what I think. I have not got any particular evidence to suggest one way or the other what municipalities are likely to do. I'm not disputing particularly what you've heard; I have not heard anything that would allow me to answer that particular question very well.

Certainly there is a range of options. They can replicate the existing situation in terms of the overall tax burdens, or they could choose to shift some of the taxes paid in business occupancy tax to other classes of property, such as residential tax. I think the minister indicated that he felt those were all options that were viable for municipalities.

Mr Phillips: Can you take us through, because I didn't hear it in your presentation, the option for municipalities of how they would handle a different tax rate within the commercial class? How can they set those different taxes?

Mr Sweeting: The two-tiered tax rate?

Mr Phillips: Yes.

Mr Sweeting: That's still something that has not yet been finalized, the mechanics of doing that. The government needs to bring forward, I think —

Ms Crane: It's not in this legislation.

Mr Sweeting: No, it's not in this legislation, so there's got to be legislation brought forward in the next round that will be able to give you some insight into that. As yet, we have not yet finalized how a system like that would work.

Mr Phillips: It would present us with problems then, because the analogy I used today of the bank tower — and I believe it to be right. Any analysis I've done, and I'm a one-person analyst, says that a typical bank tower could see a $3-million or $4-million reduction and it has to be picked up elsewhere. I haven't talked to one

municipal politician who believes they're going to put part of the business occupancy tax on residential, so if part of this legislation doesn't include the two-tiered tax system for commercial, have you any advice for how we can assess how that's going to happen?

Mr Sweeting: I'm not sure I have any advice as to how that can be assessed. I think what you have is the indication from the minister of the intention to have a two-tiered rate structure brought forward, and until the government actually introduces legislation, I haven't got much more I can tell you about that particular approach, other than its intention is to allow municipalities to decide that commercial properties in their municipalities that have less than a certain amount of value would in fact be able to be taxed at a lower rate, and then they could choose to tax higher-valued commercial properties at a higher rate or they could choose to spread that tax around the tax base in general.

Mr Pouliot: Following on the same tone, thank you very kindly for a very accurate presentation. The minister gives a break to bank towers and the large residential occupant, and then it's becoming increasingly clear that who carries the guilt, who picks up the slack, is the small business or the smaller commercially assessed. You, as a distinguished civil servant, are here to carry the can, and you can only say so much. You don't have an opinion other than that of the minister, provided it's non-political. I understand.

My first question is one of definition, and I need your help because it seems to be nuance, and I'm quoting. Current value is defined as "the amount of money the fee simple, if unencumbered, would realize if sold at arm's length by a willing seller and a willing buyer." I take this to mean it's what the market will bear, having realized the two criteria that are established here: fee simple, unencumbered, that's standard, and then at arm's length — in other words, there's no hanky-panky, they're not selling to a friend etc. Right? So it's what the market will bear.

Ms Crane: Right.

Mr Pouliot: If it is what the market will bear, what is the difference between what the market will bear and market value?

Mr Sweeting: I think the difference, as the minister said, relates partly to the fact that the values will be averaged. There's a plan that at any given point in time, eventually a three-year rolling average will be used to keep the values from swinging as much as they might under a system that's been known in the past as market value in terms of assessment.

It's also different in system terms because market value as a system, MVA, the Toronto-type system, is one that had much less opportunity for municipalities to tailor things to local circumstances. The whole ability to set variable tax rates subject to the ranges, the ability to phase in over a much more extended period of time, the ability to offer protection for seniors, these kinds of things are part of a system that is much different from what systems have been known in the past.

Mr Pouliot: Really, between you and me, Tom, it's minor variables.

Mr Sweeting: Well, I —

Mr Pouliot: I work with professionals all day. That's the kind of spiel that I give on a daily basis.

Mr Sweeting: You would have to comment on how significant the difference is.

Mr Pouliot: Thank you. Now, I wish to know: I live in a very small and remote community in northwestern Ontario, and I always look for opportunity. Aside from the Bre-X of this world, we have the Hemlo gold field. If I was to find a four-acre, treed property, how do I go about calling it a managed forest? Four acres is not extraordinary where we live. It's not a great deal, because we measure on a different scale. That's all there is, trees etc. But I want to beat the tax person there.

Ms Crane: The program criteria are set out by the Ministry of Natural Resources. They'll be in regulation. They aren't in this draft regulation; they'll be in regulations to come out shortly.

Mr Pouliot: Good.

Ms Crane: Basically there has to be a management plan that shows how you're going to use the forest. To meet program criteria it has to be a certain size, and it's defined. The Ministry of Natural Resources would determine whether that property would meet the qualifications to be a managed forest or not.

Mr Pouliot: Well, 3.8-million units will have to be reassessed by April of next year, 1998. It's a formidable task by any account, and when you are either tired or when you suffer from an overload, sometimes you're more prone to mistakes. How much will the assessment exercise, this one here — it's the biggest, I imagine, ever undertaken maybe in North America — how much will it cost?

Ms Patterson: The estimated cost is in the range of $16 million in addition to the normal operating budget in the property assessment division. It's a one-time cost for establishing the system.

You made the comment about when you're tired, sometimes it's easy to make mistakes. One of the advantages to the computerized systems that I've described is that they identify values that have been placed on property that aren't within the range that the computer would expect. It basically identifies properties where you may have made an error and lets you go back and review those properties as part of the process.

Mr Pouliot: Thank you very kindly. When you're tired, you make mistakes. Imagine if you're not trained. You have an overload on the one hand; you have now no say as to what criteria there are; you're no longer dealing with accredited people; you are dealing at arm's length, where the consortium was the beneficiary of the contract, and the criteria — some people might be trained in one day, like instant coffee.

Ms Patterson: We've heard that concern expressed. We are recruiting some private-sector companies, where they can demonstrate that they can do the work at low cost, to do data collection only. They aren't permitted to establish the standard of construction, for example. They're not putting value on the properties. They're simply going in and filling up a checklist that we've provided them with in order to collect those pieces of information we require about what's inside or outside a house. The firms that have been on that work and have

been successful are real estate appraisal and insurance adjustment firms who might well be able to do the whole job, but for the reasons you've stated we want to reserve the actual construction of the models and the valuation for people who have extensive experience in assessment.

1500

Very many of our own staff, all the ones who are constructing the models, in any event, have been through a two-year program involving this kind of computerized tool. So the actual value will be placed by experienced assessors. Some information will be gathered through questionnaires or over the phone or by a site visit by someone who doesn't have particularly great experience with the property assessment division but does have experience in valuing property or inspecting property for other purposes.

Mr Tim Hudak (Niagara South): Thank you for your presentation today. I think in any tax system, a couple of criteria that are important, obviously, are the ability of taxpayers to predict what the tax loads are going to be, not only in the near future but down the road significantly, to plan, and for the competitive nature of business. It's especially important too, I think, in terms of expectations for those on fixed incomes. My question is, how does this pass the grandma test, so to speak? My grandmother, on a fixed income, may face substantial changes in the assessed value of her property under an actual value assessment system or fair assessment system. How can municipalities deal with this issue of especially seniors and those on fixed incomes seeing changes in their tax rate?

Ms Crane: There are provisions in the bill that provide for the municipalities to pass bylaws for deferrals for low-income seniors or low-income persons with disabilities. The municipality will define what a low-income senior is, what a low-income person with a disability is, and it would apply to the owner or their spouse. Municipalities will have the flexibility to be able to provide for people in those circumstances in ways that they feel best meet the needs of their own municipality.

Mr Hudak: Can you give me a time frame on how this would be — you're talking about phasing in changes. What's the date?

Ms Crane: There are two different things. The deferral of an increase is up to the municipality, how long they defer it for. They can defer it until the property is sold, if they want to do that. The phase-in is something different. The phase-in doesn't apply just to low-income seniors or low-income disabled people; the phase-in could apply anywhere the municipality chooses it to apply where there has been an increase in the taxes paid due to the reassessed value, and that could be phased in for up to eight years.

Mr Hudak: So in terms of deferrals for low-income seniors and phase-ins and changes, this gives municipalities a great deal of flexibility in meeting local needs.

Ms Crane: Definitely.

Mr Sweeting: If I might, Mr Hudak, part of the answer too could be that a number of people, including potentially the grandmother you were referring to, would in fact be getting a tax decrease as a result of reassessment, because they were paying too much tax to begin with. So the deferrals and the strategy that Marion was talking to apply particularly and are of relevance to people who may be looking at higher taxes, but certainly there are a number who will be looking at lower taxes.

Mr Douglas B. Ford (Etobicoke-Humber): I have several questions here but I'll start off with the first one: How will Bill 106 pertain to tenants and landlords, on buildings that already exist?

Mr Sweeting: In terms of buildings that already exist, essentially Bill 106 allows municipalities to maintain the tax burdens faced by the buildings that already exist, or if they choose, they have the power to reduce the burdens that are faced by those buildings and a choice as to whether or not they wish to shift some of the tax burden from multiresidential buildings, existing buildings, to other classes of property, as long as the direction in which changes take place move property classes closer to equity. So it has an opportunity to leave taxes where they are or to gradually, in whatever steps they want, reduce the taxes.

Mr Ford: Would the tenants benefit from this?

Mr Sweeting: To the degree to which the municipality's choice is to lower the tax burden, then clearly there's an opportunity for building owners to pass the reduced costs on to tenants in the form of lower rents. Whether or not it does is clearly a question that I can't answer in terms of the marketplace.

Mr Ford: One other question I had was the students; you were mentioning previously students going out and getting this information, but I think that was identified right here.

One other question: Is this thing handled inside or have we got outside sources handling this too?

Ms Patterson: The bulk of the data collection is being handled by our staff or by contract employees we've recruited. In some communities where we've had difficulties with recruitment, we have outside people doing inspections only, not putting values on property. They are people who have some familiarity with real estate as part of their background. It was one of the criteria for selecting them. They use forms that we produce for them so that they know what data we want them to collect, and those forms have to be reviewed before they get paid. So effectively there's a quality control on the information they return.

Mr Ford: Were these people tendered for this or was it publicized? How did it happen?

Ms Patterson: Yes, there was a request for qualification that was issued I think in September of last year. We were initially hopeful that we'd find somebody who would do a wider range of activities, but we couldn't find anybody who met our quality standards or who was willing to do that work for us, so we've gone back to the RFQ participants. It was publicly advertised in the Globe and Mail and it was available on the open bidding service. Those firms that were interested in doing building inspections, we've gone to them again with an RFP and asked them to bid on the work. So it was publicly tendered and the public was notified that the work was available.

Mr Wayne Wettlaufer (Kitchener): Last summer we travelled around the province on the rent control legisla-

tion and we heard time and time again about the impact of the existing legislation and how it affected landlords and indirectly how it affected tenants. The assessment on apartment buildings was so high that it indirectly caused tenants to pay more in rent. Could you explain how Bill 106 will impact the landlords and tenants?

Mr Sweeting: As I said previously, Bill 106 takes multiresidential property, puts it in its own class and says to the municipalities, through the application of ratios and those kinds of things, that they have the choice of taxing that property at the current amount that's paid by that class now. Assessment reform itself will change values between properties within the class in the municipality, so some apartment buildings might have a higher value and some might have a lower value. The end result is that as a class, apartment buildings will pay the same amount of tax or they could pay less. Municipalities have the option of setting a tax rate such that, as a class, the class pays less tax than it does now, and they can decide how much tax they want that class to pay — than is currently the case. If they decide to set tax rates at a lower rate, then some of that could be expected to be passed on to the tenants in terms of how the landlords set their rents.

The other option the government has made available is the option for a new multiresidential class which would result in encouragement to buildings being constructed by allowing municipalities to apply a rate as low as the residential rate of tax to a new building for a period of time. That's the full extent of what Bill 106 is doing as far as multiresidential properties.

Mr Phillips: One of the things people look to us to do is to try to interpret the results of all this stuff. I've learned that not many people pay attention to the legislation but they sure pay attention to how it impacts them. There will be a bunch of people a year from now getting tax bills who will be wanting to know what happened.

One of the things I think we're owed is some impact studies. What is this going to mean? As an example, I put together my own little impact study, as I say, on the back of an envelope, but that's not going to be good enough for the public. In trying to figure out what all this is going to mean, if this will result in fairness, I assume the government has done some impact studies. Can they be now made available so the committee can figure out what the impact is going to be?

1510

Mr Sweeting: I think, Mr Phillips, the minister answered that question earlier when he indicated that the impact study is now under way in the form of reassessment and that that information will become available over a period of time as the assessment is completed and that is really the information that's available to answer the question.

Mr Phillips: We don't have the minister here. It's going to be very difficult, I think, for us to look the public in the eye and say, "Yes, we understood this thing," without knowing what it means. What's going to happen to bank tower taxes? One can say, "Well, it's all up to the municipalities," but let me ask a question: Did our public servants do any studies to assess what this is going to mean to property taxpayers?

Mr Sweeting: The question has been asked of the minister. I believe the minister has answered that question in the past. If you still are looking for answers to that question, my advice would be to ask him as well, in terms of information, what's available.

Mr Phillips: I'm going to have to.

The seniors assistance: The simple way I look at it, and I've talked to some municipal people, it looks like it's going to work kind of like a reverse mortgage, that the seniors are still going to owe the money; it's just that they don't have to pay it. It'll accumulate against their home, and when they sell it, then that's a bill owing to the local municipality, as I say, kind of like a reverse mortgage. Is that the easiest way to think about what's intended here?

Ms Crane: That's one way it could be structured. Again, it's up to the municipality to decide how the deferral will work, but certainly that's one way the deferral could work and probably a common way municipalities would choose to have it work.

Mr Phillips: My impression in listening to all of this is that the policy thrust here is — and I think the minister has said this in the past — that there are many businesses in this province paying an unfair share of taxes. I think there's a ratio of four to one or something like that in some municipalities. The policy thrust is to get the business property tax more in line across the province. Am I right or wrong on that?

Mr Sweeting: Certainly you're correct that the current rate at which business pays tax, relative to residences, can vary significantly and can be as high as three, four, five times the rate of tax, or the relative amount of taxes, as paid by residential property. Certainly the provisions of Bill 106 are aimed to ensure that circumstance doesn't get any worse and indeed provide the tools and powers to the municipalities to allow choices to be made to narrow the differentials if that's in the community's interests.

Mr Phillips: A couple of almost technical questions: One is, in the Crombie recommendations the definition of "current value" seemed a little bit different from the one you used or that was in my briefing notes from you people. The definition of "current value" is: "Current value is the amount of money a parcel of property, land and buildings would realize if sold at arm's length." The Crombie one seemed to be a bit different: "Current value is to be determined on the basis of current sales and rentals, not on speculative value." Is there any difference between the Crombie "current value" definition and the one that's proposed here?

Mr Sweeting: It remains to be seen whether or not there will be a difference in practice. As a starting point, though, the Crombie recommendation was one that has often been said to have a current use aspect to it which essentially looks at the value of the property in terms of what it would be sold for to someone who is doing the same business, not necessarily to what the willing buyer and seller in the marketplace would pay.

For many properties, for most properties in fact, what someone will buy it for and what it's used for are the same thing. In some circumstances they can be different. Occasionally the market will pay more for a property than what it's currently used for; sometimes it'll pay less than what a property is currently used for. In those particular situations, under the "current value" definition,

the value would be assigned according to what the willing buyer and the willing seller would pay, regardless of its use. There are provisions, as Marion said, that would enable the minister to determine situations that would result in a current use approach being applied rather than a current value approach. The one place where that is going to happen for sure is in farm land, because land that's assessed for farm purposes is assessed on the basis of what farmer-to-farmer sales would be.

There is the potential for difference. Whether there will be or not we'll determine over time in terms of whether there's any response on the part of the minister to any situations that are identified for considering current use rather than current value.

Mr Pouliot: Thank you very kindly. Our small village acquiesced in the need for market value assessment some time ago, a while back. We were, I would imagine, among the first ones, or the first wave to comply. Our simple philosophy was one unit vis-à-vis the other unit in a defined vicinity; that was our basic definition of assessment. Oh, we didn't have yours or other expertise. It would have been very welcome.

We also knew very well that in the final analysis you have to reconcile the bottom line. We know today that if you're large, if you're big as in "bank tower" and others, very successful, you will get a benefit. You will pay less. We also know now, we suspect, that apartment buildings will get a benefit. They will pay less. We know that this city of Toronto will be reassessed.

In this fascinating world of sewer and water and other services, you have to maintain the service, and they cost money. Who's picking up the slack for the bargains? There is no secret here. You need not be a mathematical genius emanating from Toronto or Harvard. It's simple: residential, commercial, industrial. It's not much of a shell game. If industrial pays less, you pass the buck to commercial or residential. What impact do you see? You've got to pay Harvey the police person and Jane the firefighter etc. Who's picking up the slack?

I don't wish to even be lured by the temptation to be seduced by the list of downloading, because this is an eternal lament: "We don't know. We've got reassessment. We've got January 1, 1998." You've got your fiscal year of 1998, which is three months after, and it's on and on. Suffice it.

People are asking me those questions. You see, I have to go and knock on doors to make a living, sir, and you're my friend, I know you will help me. I don't have the security of tenure. But much more importantly, I must answer those questions because those people pay for all that. What do I tell them? I don't have the answer. I asked Municipal Affairs, I asked Finance. On the eve, because we're only a few short months before the election, I asked them about 50% of the welfare, if you're on general assistance, the drugs if you're on medication. They said, "Well, is it true, sir, that I'm going to have to, as a municipality, raise 50% of the cost of what is on the formulary?" They've never been exposed. They are municipal council people. Then they go to the old folks home and then they go to the ambulance bay and they see that the roof is leaking. What about policing? You see, we need all these things. Assessment is one.

We know that they're not trained for the majority of places. We also know that it's going to cost approximately $30 per house, and they're going to overload them. Out of the $30, she or he, which is the assessor, will take in about $12. The other $18 is going to go to the ABC, the consortium that bid, so some business people are going to make a killing out of this. I guess there's nothing wrong with this. But this is a rushed job, and I'm concerned that it's only going to impose cumulative damage on a system which is already overloaded.

This is one more big question mark where you could have taken — the Crombie subcommittee says, "Take your time, don't rush things." But you're rushing. You're rushing on all fronts. When you finish your work here at 7 or 8 o'clock every day and you go in the privacy and comfort of your apartment or your house, you try to put these things in perspective. I've noticed you've been losing weight lately and I'm concerned about your health. What do I tell my constituents?

1520

Mr Sweeting: You can reassure them I haven't lost any weight.

I'm not sure what you'd tell your constituents. I'm not sure what the question was, actually. The bottom line is that municipalities have always struck budgets to pay for services that are necessary for that municipality, and what this bill does is essentially continue the requirement for municipalities to levy local taxes and give them new powers to do that.

Mr Pouliot: But aren't you afraid they're being lied to? I mean, I'm not saying that the ministry —

The Chair: I don't believe that's acceptable, Mr Pouliot —

Mr Pouliot: Okay, it's not.

The Chair: — and I understand now that your time has expired, so perhaps we'll just move to the government side.

Mr Pouliot: But we want answers, Mr Chairman. This is very serious. We want answers to that question and we're not getting them.

The Chair: The seriousness of the situation is why we're in committee, Mr Pouliot. Thank you very much. We're moving to the government side.

Ms Bassett: One question I'd like to ask that several people have been putting to me recently is about gross leases. If the municipality, with the business occupancy tax, passes on and wants to recoup the revenues for gross leases, will the lessor be able to download the cost to the lessee in fact, the business tenant?

Mr Sweeting: If you're referring to the situation of leases that don't have any pass-on clauses relating to taxes, there's nothing in Bill 106 that changes the relationship that exists between a landlord and a tenant. If it's a gross lease situation, then clearly it would take a renegotiation of the lease or the passage of time in order to manage the implication for the landlord. Most leases are net leases —

Ms Bassett: I know.

Mr Sweeting: — and so in those circumstances the changes that happen to an owner of a property are typically passed on through changes to the rent payments for the occupants of the property.

Mr Hudak: I had a question about conservation, coming from the Niagara Peninsula, part of the escarpment, and also some recent developments in terms of putting aside the bog as conservation land and for public access and such. It's a very important issue in my riding, and I think the Chair's probably concerned too about his riding. Could you help me understand how the new act will treat conservation land, how that differs from currently?

My second question, particular to the Niagara Escarpment plan: I understand those lands will now be eligible for an exemption from the tax. I didn't quite understand if they are currently exempt or if this is a change in the policy.

Ms Crane: They currently receive a rebate, and basically what Bill 106 does is extend the rebate program. Anything that qualified as conservation land under the rebate program would qualify under Bill 106 for an exemption from property tax for eligible conservation land. Those are yet to be defined in regulation.

The basic premise is that we're taking the definitions that applied in the old program. There will be a couple of differences regarding land owned by conservation authorities, but basically the way it operates right now whereby the province determines what are the conservation lands and then if a person is willing to maintain those lands in the ways that are required of them to get the exemption, that's the way it will operate. All those details are yet to be worked out exactly, how that will be, but I think we can say the exemption from tax would apply to the same properties currently receiving the conservation land tax.

Mr Hudak: To make sure I understand it, the property then qualifies through regulations.

Ms Crane: Yes.

Mr Hudak: It will be a simple exemption as opposed to going through an entire rebate process.

Ms Crane: Definitely. Yes, that's the way it works. There'll be no rebate. Once it's identified as eligible conservation land, then there will be no rebate. It's exempt from tax.

Mr Spina: We're going to switch from conservation to highly used land, in the name of airports. You said there were some changes. I'm not seeing any right now, other than the fact that all we're saying is the grant in lieu will continue even though the properties are being transferred from Transport Canada to the GTAAs, as they're known, or the CAAs.

Ms Crane: What is happening is the Canadian airport authorities are leasing the airport land from the federal governments, a lease of 60 years, which would mean this is no longer land owned by the federal government, would no longer be land that would be — if we didn't put this provision in Bill 106, the airport authorities would be liable to full property taxation. What we're doing is we're continuing the tax treatment the airports currently receive, recognizing the importance of the airports to the economy of the province and the jobs they create. So the amount of money that's being paid to the municipality right now by the federal government will continue to be paid by the Canadian airport authorities to the municipality.

Mr Spina: There's only one problem I have with that. I can fully appreciate that money going to the municipality in cases like Thunder Bay, Sudbury and London. Where I have a problem with it is this: You have two international airports, Pearson and Ottawa. The problem I have is that the grants in lieu are being very strict in terms of, "You just happen to fall within Mississauga's boundaries, so it now goes to Mississauga." But the reality is that it should be either the region or the members that sit on those airport authorities, because the GTAA here in Toronto, as you know, has Etobicoke, Mississauga, Brampton and Vaughan that also sit on that GTA authority.

In my opinion, if there are going to be grants in lieu of taxes, that, I think, that should be shared or split among those representative municipalities or representative jurisdictions. Now Hazel ain't going to like that, I know, but tough noogies, because frankly she isn't the only one providing services to the airport. The other jurisdictions are also obligated to provide services and infrastructure to that airport, and get nothing in return.

Ms Crane: Tom, do you want to answer that in terms of the payments in lieu, what will happen, just in general.

Mr Sweeting: The issue you've raised is one of the issues we have to deal with yet at staff level and advise the government on, what to do with payments in lieu type things, and because the root of this is in payments in lieu, I would think that's an issue that still is going to be looked at in terms of the distribution of the payment that's indicated under Bill 106, whether or not it would be strictly lower-tier in which it's occupied or whether it would be another distribution mechanism for it.

The Chair: That brings us to the conclusion of our time with the staff. Thank you very much for taking the time to present to us and the for completeness of your presentations.

ONTARIO HOTEL AND MOTEL ASSOCIATION

HOTEL ASSOCIATION OF METROPOLITAN TORONTO

The Chair: We now welcome the Ontario Hotel and Motel Association, Mr Seiling. Welcome, Mr Seiling. We have 20 minutes together. If you would like to start with your presentation, which I believe has been distributed to the committee, we can fill any remaining time with questions.

Mr Rod Seiling: For those of you who are looking at my presentation, I must apologize. I understood Ms Bassett was going to chair this hearing; you've not had a sex change. I do apologize.

I want to thank you, Mr Chairman and members of the committee, for the opportunity to appear here today. I am appearing as president of the Hotel Association of Metropolitan Toronto with its 32,000 rooms, 18,000 full-time employees, billions of dollars in investment and $1.2-billion economic contribution annually to this economy here locally, but also as president provincially of the 1,000 members of the Ontario Hotel and Motel Association.

Generally speaking, Bill 106 proposes to provide a fair and more equitable property tax system for the province, and we applaud that. It's long overdue. Previous govern-

ments have backed away from it despite studies recommending a movement in that direction. Specifically in Metro, which we believe may be the best example of the unfair property tax system, it has been the major reason that the industry has not been economically viable.

1530

For example, property and business taxes account for 61.5% of an average hotel's GOP. It you add in the 3% reserve which hotels are supposed to add in for normal-wear-and-tear replacement, that figure jumps up to 79.8%. I don't know of a business that can survive anywhere with those types of numbers. The reason for this, of course, is that hotels have been assessed at twice the level of assessment as other commercial properties, despite the fact that everyone recognizes that they are commercial properties, and in fact, are taxed as such all across the rest of the province.

The impacts of this have been bankruptcies, lost jobs and lost capital reinvestment, as owners simply have not been able to provide the necessary capital reinvestment in their properties they know they needed to do to remain competitive, and have had to cut back on jobs to try and maintain cash flow and be able at least to pay the property taxes. Bill 106 corrects this inequity.

We do, however, suggest an amendment to Bill 106, specifically the section proposing to allow the minister to create new classes of property for special rates upon the request of a municipality. I believe that is section 2(2)(e). We believe it could produce undue pressure on the minister of the day. For a request by a municipality in the public interest that no one should object to, the legislative process would allow open consultation. As our industry and others I'm sure have witnessed, with what can happen on the local scene with respect to the municipality, we're not at all sure that we could wake up one morning and find out the request has been passed and moved on to the minister of the day. Surely it would be totally ironic that with 106 providing fairness and equity in property taxation, the same bill could provide the means to undo that same fairness and equity.

We also have a concern over the setting of the variable tax rates. It's more of a caution to the government that, if not properly set, they could be utilized to prevent the fairness and equity reaching those who are to benefit from Bill 106. In other words, municipalities could use these rights to thwart the fairness and equity provision.

Under business and occupancy tax elimination, we support its discontinuance. There's a large amount — about \$200 million, we understand — that is annually uncollected. With this assuredness by municipalities that their total assessment is now going to be collected, we believe that they'll be able to lower their requirements on what they need for taxes on an annual basis and thereby reduce the tax and the mill rates or the new tax rates that they assess on residents and businesses.

What we do ask the government, though, is to ensure that whatever amount of this revenue the municipalities do move to recapture, it is done fairly and equitably; in other words, that a municipality cannot target a sector or a business disproportionately.

With respect to the three-year average, we totally support the new assessments being based on three-year rolling averages. It avoids the spikes prevalent in the current system. It helps preclude a tax bill based on a totally unrealistic assessment bearing no relation on true value or ability to pay. Anyone who has had their recent assessments and are continuing to pay in 1998 know all about that. Businesses for the most part don't mind paying their fair share. They want to know that it's predictable and fair and that they can budget for it.

With respect to the phase-ins, obviously we'd prefer immediate relief rather than the proposed phase-in period of up to eight years. My members in Metro Toronto have been subsidizing the business and residential community for 25 years. We would hope that the government ensures that during this phase-in process the reductions are not just proportionately held out to the end of that phase-in period, that at the very least they're put forward in a proportionate manner.

In summary, Bill 106 moves to provide fairness and equity to taxpayers all across this province, including our members. If you notice on the charts that are provided with my presentation, hotels here in Metro have been saddled with the highest property tax per room, close to \$5,000, in North America. This legislation, we understand, will help to rectify it. It won't get us all the way there, but at least it will make us more competitive in the global marketplace. To succeed, we need to have this fair property tax system. When we do receive it, our members will be able to compete fairly, to reinvest and to hire the people that they need to provide the services they know to be successful. Thank you very much.

Mr Pouliot: Thank you very much. It's a renewed pleasure, Mr Seiling, and one more time we're the beneficiaries of your expertise and dedication.

I need a point of clarification which will lead to my question: On the agenda, it says 3:30, Ontario Hotel and Motel Association, Rod Seiling, yourself, president, and then your presentation says, and I'm quoting page 1, "I'm appearing here today as president of the Hotel Association of Metropolitan Toronto.

Mr Seiling: I'm president of both.

Mr Pouliot: You are president of both. The reason why I wish to make the clarification is there is a slight discrepancy.

Mr Seiling: I think I said that in my verbal presentation.

Mr Pouliot: Okay. Thank you very much.

Do you see any difference, for instance, and I have your rate here, hotel tax per room, with a motel operator? Will they be impacted in the same fashion, in your opinion?

Mr Seiling: Oh, most certainly. The level of taxation, if you're talking about here in Metro Toronto, the level of assessment of hotels has been approximately twice that of other commercial properties, despite the fact that everyone recognized — and they are treated as such across the rest of the province — as commercial properties. There were countless recommendations to fix this anomaly. Unfortunately, for 25 years it's never been fixed, and as I've said in my presentation, it's been the major reason for bankruptcies, lost jobs, lost investment.

Mr Pouliot: Fair enough. When you compare Toronto to other major Canadian cities, do you feel that taxation

policy plays an important part in what we see as a fairly significant difference between what you must pay for a hotel room here compared to other Canadian cities?

Mr Seiling: It has a great deal to do with it. Property tax is the largest uncontrollable expense a hotel has, and it affects its competitiveness in a number of ways. One is the ability to provide services at the level that you must to remain competitive, both human services and amenities. The functionality of a hotel today is just as important as location, or more important. Owners cannot reinvest if they're not earning a return on their properties. Currently speaking, under the current system, by a survey conducted by Price Waterhouse, only 11% of the hotels in Metro Toronto were earning a return equal to or better than simple bank interest. All the rest were losing money.

Mr Pouliot: I'm just running a list here. Congratulations. You've just entered the club. You are the first presenter, but we've had some expertise from the ministry, and they've already said if you're the large industrial sector you will pay less taxes; if you are the bank towers, for instance, you will pay less taxes. Now the apartment buildings will pay less, so I add to the banks and the apartments — congratulations — the motels and hotels. As we go through this exercise, we'll have to find out who's going to pay for that. Congratulations. It's cause for celebration.

Mr Seiling: Are you suggesting that it was right that hotels continue to subsidize, to the detriment of people who've lost their jobs and owners who've lost their businesses because of an unfair system?

Mr Pouliot: No, no. I'm just thinking about your clients, people that pay for it. I'm not upset or anything. I'm just saying at one time you're going to have to collect taxes from someone. If everybody saves here, where does the money come from? That's all I'm saying.

Mr Seiling: For the most part, just for your information, the hotel sector has been subsidizing the rest of the commercial sector unfairly for 25 years, and 99% of that will come from other commercial businesses.

Mr Pouliot: That's great. Thank you, sir.

Ms Bassett: Thanks, Mr Seiling, for your report. We're talking so quickly it probably went by me, but I wonder if you would just clarify again. Since one of our government's main aims is to create an environment that's conducive to stimulating the business environment, certainly for hotels, how would changing the property assessment, as we are planning to do, help stimulate growth in our hotel industry?

1540

Mr Seiling: Hotels have been looking for fair property tax treatment for some time. In the absence of that, there have been owners who have lost their businesses. They've had to cut jobs and forgo reinvestment. All that is counterproductive to a stable and thriving hotel industry. With a fairer property tax system which will produce lower property taxes — hotels have never been asking for special treatment, just fair treatment — they will be able to reinvest in their property, rehire some of the people they've let go and upgrade and be competitive in the marketplace.

Hotels here, while they compete with one another, compete for business with Atlanta, with Orlando, with Las Vegas, with London, England. We're in a competitive global marketplace, and if our facilities aren't up to snuff, then people are going to forgo it and not come here. Hotels are, I would say, the bedrock of the tourism industry. It's the world's fastest-growing industry. It's the second-largest industry here in Metropolitan Toronto, Toronto being the gateway to Ontario's tourism industry. It represents about 40% of tourism receipts. As they come in here, through the hub-and-spoke phenomenon — you pull them into Toronto and then feed them out to the province — they're going to be staying over. If people come here and they see that we have the facilities in sufficient supply and up to the quality they expect, they're going to tell their friends and they're going to come back again.

Ms Bassett: The reassessment will make hotels move in that direction?

Mr Seiling: Yes. The current system, as we've had independent people take a look at it, the major reason for the non-viability in an economic sense has been the property tax system. As I said earlier, when you're paying 70% to 80% of your GOP in property and business taxes, it's virtually impossible to be profitable.

Mr Ford: I'm just curious: This new trade centre downtown must be a tremendous asset for your business.

Mr Seiling: Yes. The new trade centre, along with the opening of the expanded convention centre later this summer, both are going to help to stimulate demand for the hotel industry. It's now the third-largest trade centre in North America. So with the expanded capacity, we're hopeful they'll be able to sell new trade shows and bring in people from around the globe to come here, and in the process find out what Ontario has to offer and go back and rave about what a great destination this is.

Mr Ford: You people must be working in conjunction with these people in promoting this business, is that right?

Mr Seiling: Yes, we work very closely with the visitor and convention bureau and the trade centre and all the people involved. We must cooperate to be successful.

Mr Phillips: Help me out a little bit because I can't quite remember: How did your property taxes get so high? Is there a special assessment placed on hotels?

Mr Seiling: Mr Phillips, I've heard a number of stories. It goes back so far that in all honesty no one can actually remember. We believe it revolves around an appeal at the Hotel Toronto some years ago. It was set there and it was left there, knowing that it was high, but the assessment system was going to be fixed very shortly. "We'll just leave it and when that's fixed, everything else will be looked after." Well, 25 years later, we're looking now for Bill 106 to finally fix it.

Mr Phillips: Just in terms of the impact of Bill 106 as you assess it, what do you think it might drop your tax per room? What's the best way for us to look at it? How much in total do you think it might be?

Mr Seiling: I couldn't guess at that. There are too many variables right now: the reassessment process, the phase-in provision, the variable tax rates. We can't make a prediction whether it's going to be X% or Y%. In having discussions with ministry officials who are responsible for the reassessment process, we've been

assured that there are going to be property tax reductions. It won't be across the board, because as you know — you have a fair amount of knowledge of the system — the level of assessment varies between the respective municipalities now, from a low of about 5% out in your end, Scarborough, to the high of 13% in downtown Toronto here. The impacts will be different from city to city across Metro.

Mr Phillips: But is it $1,000 a room, do you think? I'm just trying to get some feel of how much help this is going to be to you.

Mr Seiling: I don't want to make a guesstimate simply because there are too many variables. If I knew the answers to those, then we could be more specific as to the exact amount.

Mr Phillips: You cautioned us about providing more flexibility to have additional classes of property tax. Your concern is that you may get right back into the same situation down the road, is it?

Mr Seiling: Very much so. Bill 106 moves a long way to providing a fair property tax system for everyone. We think it could provide undue pressure for the minister of the day if a municipality would come forward and say, "This is in our best interests. We need to have this special class. Just sign this regulation," and away it goes. We believe that if it is in the public good, then surely that municipality and the minister of the day will have no problem taking it forward to the Legislature and having an open consultation process. History has shown in the past that's not going to be guaranteed at a local level. We need to have it at this level to ensure that we don't wake up one morning and the fairness that we got out of 106 has all of a sudden been signed away by a future minister. We're asking for that protection and believe that surely if it's in the public good, no one will have a problem taking it to the legislative process.

Mr Phillips: Not deal with it through regulation but rather through legislation.

Mr Seiling: Correct.

The Chair: Thank you very much, Mr Seiling, for appearing before our committee with your presentation.

SOUTH ROSEDALE RATEPAYERS' ASSOCIATION

The Chair: We now have the South Rosedale Ratepayers' Association. Welcome to the committee, Ms Wells. We have 20 minutes to spend together. If you would like to start with your presentation, we could fill any remaining time with questions.

Ms Tanny Wells: Members of the standing committee on Bill 106, my name is Tanny Wells. I am a member of the executive of the South Rosedale Ratepayers' Association. I'm here this afternoon to present the views of the association on Bill 106.

Our association has long opposed market value assessment as a basis for taxing property. This opinion has been expressed by others before me in our association. In fact, I represented the SRRA here the last time that MVA was being debated under a former government. At that time we had strong allies among the Tory members of the then opposition.

Our position has not changed because nothing new has occurred that would make us change that policy. We have had a long-held policy regarding market value assessment because we view it as an unreasonable way to tax property. We also believe that the imposition of MVA will have a very deleterious effect on the central neighbourhoods of the city.

Over the years our submissions have not been to maintain the status quo but to find a fair, stable and efficient system of taxation which would reflect value for services received. In our view the property tax system ought not to be another wealth redistribution scheme, because we know too well that a person's wealth is not accurately measured by the fluctuating value of their home. Income taxes are what we would suggest to be a fairer way of accomplishing this wealth redistribution.

We were cheered when our member of the Legislature campaigned against market value assessment. It was and remains a very important issue in our neighbourhood. He was right to choose it as a campaign issue. When our member became the Minister of Municipal Affairs, we were quick to ask to meet with him on this subject. Together with the other ratepayer organizations in our constituency, we asked to be involved with the process of developing a reformed assessment system which we believed would be philosophically acceptable to a Conservative government. The minister met with us on several occasions and he agreed to look at other means of assessing property.

Several members of our association have spent many volunteer hours, in fact days, studying alternative forms of taxation. We have worked with the taxpayers' federation, other ratepayer groups throughout the province, the assessment reform working group and of course the city of Toronto.

I want to emphasize again here that at no time have we advocated the retention of the status quo as an option. Historically, we have been proactive. We had as our criteria a system that would be (1) fair, equitable and transparent; (2) efficient to maintain; (3) stable; (4) simple and inexpensive to implement.

1550

After a lot of work and consultation with experts in the field, the city of Toronto held a two-day seminar in November which brought together experts from other jurisdictions from around the world who had experience with other tax and assessment systems. They were the following: (1) the British, who had to very speedily devise a system to replace the infamous poll tax; (2) Tel Aviv, which has a pure form of unit tax; (3) California, proposition 13, a market value system where assessments only change when a property is sold; and (4) the BC actual value assessment system, on which we were told the province of Ontario was modelling its system.

We were disappointed that the provincial authorities, and our member in particular, did not take an active part in this outstanding event. There was much to be learned there about alternative methods of taxation.

This by way of history is a description of who we are and why we are here: We want our opposition to market value assessment, in whatever guise it comes, noted. The South Rosedale Ratepayers' Association is the oldest one

in the city. As such, we know enough to argue the points that can be argued in this venue.

You've heard that we oppose the very idea of market value assessment. Now on to the specific provisions of Bill 106.

To begin with, the legislating of the term "current value," part I, subsection 1(3), is a cynical linguistic ploy which may fool some of the people for a short time, but don't count on it. Since the provincial election, when MVA became a dirty term, the same concept became known as AVA. When the Supreme Court judged that MVA and AVA were in fact the same thing, a new name was found. It is "current value." This according to the subsection referred to "means in relation to land, the amount of money the fee simple, if unencumbered, would realize if sold at arm's length by a willing seller to a willing buyer." In fact, the subsection simply deletes the word "market" and inserts the word "current."

To an unsophisticated person, even to a highly educated lawyer, there is no difference between MVA and CVA. There will certainly be no difference in the assessed value and therefore the tax effect of MVA or CVA.

During the last election our elected member, the Minister of Municipal Affairs, promised, "My party and I will never support the imposition of MVA in Metropolitan Toronto." We understand there is a problem here. This government specifically campaigned against MVA and therefore, we submit, against CVA as well.

We understand there is a reassessment of every property in the province which is currently under way. The monumentalism of this task is truly breathtaking. It is the largest reassessment ever undertaken in North America. The outcome of this undertaking is likely to be a huge number of appeals; this according to the assessment office itself. The private sector refused to become involved in the process because it was felt by many that the job just could not be done properly within the given time frame and with the funds available. The BC assessment office similarly declined to become involved.

The city of Winnipeg undertook a similar operation several years ago. The assessment criteria were changed but the existing assessment staff were used to implement a new system without retraining. This is what is happening in Ontario right now. The results in Winnipeg are worth noting: The city lost $54 million more than it had budgeted in reserve due to reassessment inaccuracy. Scaled to Ontario's population size, that equals $800 million. These losses would have to be covered by the taxpayers who live in and own property in the municipalities. The only societal benefit of the reassessment process is that it provides years of steady employment for the employees of the assessment offices.

As a ratepayer organization, we must object to such a cavalier attitude to the assessment of value on our assets. We understand that the cost of implementing and maintaining this costly system of assessment will be paid by the local municipalities — once again a download of provincial cost to the municipal level, and in our case the homeowner.

We're also concerned about a number of issues surrounding the implementation of market value assessment.

The local option for transition: Our overriding concern is that it should not be a local option. It is the province that is responsible for the reassessment. It is the province that should be held responsible if the municipalities do take advantage of these options or do not, as the case may be.

The bill states that the local municipality may buffer the impact of the new assessment in several ways, and we have several concerns around this provision. First is in terms of the elderly and disabled. The bill specifies that only low-income persons are eligible, but what are the criteria for low income? It is our understanding that income tax information is not available to those who would make that distinction. Second, the bill allows the local municipality to allow current use valuation on specific properties, as well as to impose changes over a number of years so as to soften the impact of changes in taxation.

These options should be retained by the provincial level. Given that the implementation of Bill 103 occurs, these transition rights will be left in the hands of the megacity council. Those of us who attended the Metro council meetings at the time of the last MVA debate in 1992 will not soon forget the division and angst created by that debate. We would not want to see them repeated again. It was a very sad time for our community.

Given the fact that there will be a finite amount of tax revenue required by the megacity, any softening of the impact of increased taxes which will accrue to the downtown core will mean others who are primarily from the Metro suburbs will be slower to reap any benefits which they will expect. To leave this option as a local one is in our view asking for trouble.

One of the most worrisome aspects of Bill 106 is that tax policy is not sufficiently refined. To our knowledge, no impact studies have been done. No one really knows how these changes will play out in reality. Time and time again we have been warned of the economic fragility of our business core because it is so highly taxed. We believe that tax policy has to be carefully tailored to ensure the viability of our urban core and our neighbourhoods.

We urge the members of this committee to recommend that Bill 106 be withdrawn for the following reasons: (1) Bill 106 violates clear electoral commitments; (2) there is insufficient time to ensure accurate assessment and it therefore exposes our community to unacceptable risk; and (3) the tax policy component needs redesign.

We believe there is a will to reform the assessment system. We know there are many associations and organizations across the province which acknowledge that the existing system is neither fair nor viable. It is in everyone's interest to get it right this time.

The government has been in a great hurry to change the way in which many things are done in this province. That is to their credit, but it is important that these changes be changes for the better. The changes embodied in Bill 106 will face many homeowners and business owners in the large urban areas with huge tax increases. Surely this would not be a welcome change. We urge you to ensure this does not happen.

The Chair: We have time for three minutes per caucus for questions. We'll start with the PC caucus.

Ms Bassett: Thank you, Ms Wells, for your presentation. I just want to put a few things on the record. We feel of course that the new AVA system is quite different from the market value system — you say they're the same thing — the reason being that municipalities think current value is going to be fair to all taxpayers. Unlike the pure market value system in Ontario, it will ensure, for example, that farm land, managed forests and conservation lands are addressed on the basis of current use only. In terms of the assessment that's being done, it will be done on 1988 —

Ms Wells: No, 1996.

Ms Bassett: Let me rephrase that, on 1996 values, whereas the last time, in 1992, to which you referred, it was done according to 1988 values. The 1996 values, as you know, are absolutely at the most level and they don't have the spikes in them and the high rises that 1988 had that were out of kilter. People's assessments will not go jumping up.

Second, some people's assessments are going to go up because they haven't been re-evaluated since 1940, if ever. That we feel just is not fair. You included that at the beginning.

Ms Wells: We too are looking for a fair system, and I agree with you that the current use options are very important. Where those apply in the city, they should apply. That's fine, but we feel that value-based is not that. We also don't think there's a huge difference. You choose your date to put it in at, so it's better in 1996 than 1998 because it's not as high.

Ms Bassett: Except, if I could intervene, we're having a three-year rolling average, so that will again level it out a bit.

I want to point out that when you mention unit value, it does not include location, and I feel that location is a very important component.

1600

Ms Wells: We would not be recommending unit either particularly, but there are some very interesting, much more stable things that don't require the constant updating and this huge amount of money that is being spent on the assessment.

England is a very good example of what happens. They had a real political jackpot they had to get out of. They put in a very stable system with the banding which, once it was in place — it basically is a combination of a lot of things, but it's been very stable in terms of not having unexpected changes for people just because they are still living in a house and somehow or other the value changes and their taxes go up.

Ms Bassett: The municipalities, though, are going to be able to ease in the transition over eight years.

The Chair: Thank you very much. If we could move to the opposition.

Mr Phillips: Just a comment and then a question. You need a microscope to see the difference between market value assessment and this. It's like two identical cars: One's dark blue and one's black. That's the only difference. This is market value.

My question is, when Mr Leach was talking to you before the election, did he indicate what his government planned to do for property tax reform? I know he was against market value assessment and promised he wouldn't do that. Did he ever indicate what they were?

Ms Wells: I don't think he ever indicated exactly what he was going to do, but he certainly came out with a piece of paper that was delivered around the neighbourhood very close to the election indicating that he would never — that was a direct quote from his pamphlet which I read, that he and his government would never do this to Metropolitan Toronto.

Mr Phillips: It might be useful to have that just so that we know the background on it. In terms of the impact on communities, has your organization — we too, by the way, are looking for the impact studies. We find it fairly incredible that we're proceeding without some idea of how it's going to be. Has your organization been able to do any calculation of what you think the impact might be?

Ms Wells: It all depends on what happens. At the moment there would be some big jumps in the older houses in the neighbourhood, there's no question. The new houses, there probably would not be. It all depends on whether anything is going to be able to be done with the social welfare costs and what gets downloaded on to Metro. It really depends on how much money the taxpayers of Metropolitan Toronto have to come up with, whether it's going to be as high as 1.4% of the price of their house as of last June. It could be.

Mr Phillips: So you haven't had a chance to do any of your own impact studies. Has your organization requested, because we're having trouble getting them out of the government through freedom of information and anything like that, the impact studies?

Ms Wells: The city of Toronto indicated that they were trying to do that and that if they were to get them, they would get them to us. No, we have not been advised of any, and the comments have been made, I'm sure, that if they were there, we would have seen them by now.

Mr Pouliot: Thank you, Madam Wells. Assuming that one is reassessed, and in your case those are the people you so ably represent, under actual or current value assessment or under market value assessment we're talking about the same thing in terms of your reassessment. There isn't a margin of difference. The answer in the difference is with the detail, and it mostly applies elsewhere, but in terms of reassessment, you would hardly likely see any difference under the system that you opposed yesteryear and the system that you oppose this year.

Ms Wells: No.

Mr Pouliot: I am not familiar with the intricacies and the history of the city of Toronto, but there's one phrase among others in your presentation that caught my attention and I would like you to help me.

You've indicated that the unit that you occupy, the residence where you live, is not a barometer. I know you did not use "barometer" or "gauge," but it's not necessarily the way we judge a person's wealth and/or ability to pay. A person's income would be a determinant. The vehicle that a person drives, the place where a person resides, usually those are traditional barometers.

They're not always foolproof, I agree with you, because there's a choice in terms of lifestyle, but quite

often if I was to go into the better housing unit, I would have to make a certain amount of money in order to reside there, to afford that. It's quite simple. It happens to all of us at different degrees. If I was to go to an automotive dealer to buy a vehicle, I can only afford this range and this range, and that's okay too. What else can we do? You would not be suggesting that we all pay the same?

Ms Wells: There's a school of thought that would say yes, you pay for the services you use. That's what municipal taxes cover. That is one school of thought. I don't think at this moment we're prepared to say exactly what it is we would like to see. We just know that there are other fair systems that have been in place. Personally, I would look at the English system as one.

But I just want to answer your question a bit about the fact that somebody's house is or isn't a barometer of their wealth. Of course it says something, but if you've lived in a house for 20 years, and sometimes in some of the downtown areas — it's not necessarily true in south Rosedale, but right across Yonge Street from us and even in our neighbourhood there are people who have lived there for many, many years. They're on fixed incomes, and fixed incomes haven't changed.

Mr Pouliot: You're right. The dilemma we're in is that the same thing can be true for the very same person who lives across the street and pays more taxes.

The Chair: Thank you very much, Ms Wells. We appreciate your presentation to the committee today.

ONTARIO PUBLIC SERVICE EMPLOYEES UNION

The Chair: We now welcome the Ontario Public Service Employees Union, Mr Faulknor and Mr Presley. Welcome to the committee, gentlemen.

Mr Will Presley: We don't have enough copies for everybody. We will have some copies for you after we're done, but we'll read from our brief to begin with.

First, to introduce ourselves, good afternoon. My name is Will Presley. I'm the northeastern Ontario vice-president for OPSEU. I'm also a professional in the property assessment field and a graduate of Cambrian College. I personally have worked on three market value reassessments in my occupation.

Mr Ed Faulknor: My name is Ed Faulknor. I am chair of the ministry employee relations committee representing OPSEU. I also am and have been with the assessment function for 30 years this year.

To initially start off, we want to make it very clear that we are not in any way opposed to the concept of market value. In opposition to the individuals who were here before us, we think there is merit in the concept of market value or some variation. Our problem is very simply a time concern. We have very serious concerns about the fact that the existing government has chosen to implement this particular system in what we consider to be a rush, and that rush, we feel, is going to affect the quality of the product that we are going to get. The government's timetable in this particular case will, in our opinion, result in probably the poorest quality at the highest price.

A reassessment requires an immense amount of data, analysis and calculation. Traditionally in Ontario we have produced reassessments on a four-year cycle. After all properties have been reinspected, revalued and the assessment roll returned, the staff will have four years to redo the whole project again. The assessment division has only been given the staffing and resources to meet that particular four-year cycle.

1610

In addition, under normal circumstances, when a reassessment project takes place, quite often staff from other areas that are not going through a reassessment have been temporarily allocated to that particular area to help in the reassessment. In this particular case, we're talking about a province-wide reassessment, we're talking about every office doing the reassessment, and therefore there isn't the possibility to redistribute the staff since all staff are involved.

The workload has tripled in the province of Ontario since the Ontario government took over the function back in 1970. I was part of an assessment office at that time, and the fact is that we have risen from looking at approximately 1,200 properties to where each individual member of staff would be responsible now for 3,800 properties. Bill 106 now demands an even greater workload by asking us to assess all properties in the time period allotted.

No matter how you look at it, Bill 106 demands that the largest reassessment project ever imagined in North America be completed within approximately a year to 18 months' time. For the assessment division, this to us seems like climbing into a rusty 15-year-old car and trying to drive in the Molson Indy.

Faced with this unrealistic timetable, the division has taken some unprecedented steps, steps which have greatly concerned the existing staff in the assessment division.

The first step was to hire approximately 500 temporary, short-term staff on contract. These staff are not trained property assessors. The working-level Ontario property assessor is normally a CAAT graduate in assessment administration with five years' related experience. Most property assessors are university graduates with those same five years, and their training is in related courses such as economics, law and real estate valuation. These contract staff are doing tasks that are traditionally done by assessors, in some cases with very little training and very little supervision. As a result, some assessors have been told to ignore standard quality control measures already, and we expect many more standards will be flaunted before the deadline nears.

The second step of contracting out is the fact that the municipal enumeration project has also been contracted out. This is done every three years, and this year it will be done not by the normal staff but by a consortium of outside contractors, including Amex Corp. The cost has not been released. Part of our concern in this regard is the fact that to overcome the public's understandable reluctance to provide multinational corporations with personal data, the ministry has decided to have the return addresses go to the ministry or appear to be going to the ministry when in fact they're going to these multinational

companies. We feel that this is clearly misleading them and we are very concerned that this is the case.

The third and final thing we were concerned about from a contracting point is the fact that they have recently put out tenders for companies to be invited to do some of the work that normally is done by the property assessment division. These contract companies have put in bids and are in the process now of hiring staff and preparing to do the reassessment work. These individuals who are being hired — there is very limited control. The assessment division and, therefore, the ministry have no control over who these private companies hire. We are very concerned that even in the government document for the RFP there was an indication that they would only be allotted one day's training to train the individuals, who then in turn would train the staff who would go out to do the inspections of the properties.

Since occasional temporary workers have never been used as assessors, the ministry is counting on the public assuming that the data collector at the door with the assessment division identification has been hired, vetted and trained by the Ontario government. Like the false return address for the enumeration notice, the public will not be told that these inspectors work for private interests.

Many assessors predict that the ministry audit will be a whitewash, because a failed audit will force the ministry to admit they took a wrong road. There can be no turning back with this timetable.

Mr Presley: So the taxpayer can expect the worst quality of any reassessment in Ontario's history. Will it be done cheaply, at least? The answer is no. Rushing the job means the hiring of temporary, unqualified staff, the contracting out of the municipal enumeration task, and fattening the wallets of many businessmen. The residential reinspections, the simple ones discussed above, will cost the taxpayer about $30 each, according to our information. The amount will increase if the task is more complicated or if the properties are spread out. Of this $30, the worker will receive about $12 per house. The contractor will make a profit of $18 every time a worker inspects a house.

The number of properties reinspected in a day will vary, depending on many factors — we say that right out; our years of experience have told us that — but assessors in a residential neighbourhood can often do 20 simple residential inspections door-to-door. At $30 each, the contractor will bill the taxpayers $600 per workday. Qualified property assessors are paid between $123 and $194 per day, plus benefits. The temporary workers now employed by the assessment office the contract work is employed within are paid $12 per hour that they work for the ministry.

The other big part of our presentation is, who will administer Bill 106? There was one sentence referring to this in the staff presentation you heard this afternoon. The Crombie panel, which spent most of its first year examining the Ontario assessment system, said the following about the delivery of assessment:

"The subpanel strongly feels that the transfer of assessment delivery should occur when the revised assessment system has stabilized. An organizational change of this magnitude while the update is under way could jeopardize the accuracy and quality of the assessments and undermine the integrity of the process."

The assessment staff of Ontario know that Crombie was right, but the minister chose to ignore this advice. We think you should correct this mistake.

In mid-January the Minister of Finance announced that the Ontario property assessment program would be removed from his ministry by the end of the year. His announcement could not give much detail because the government admitted they did not have a plan. You all have this information before you. The assistant deputy minister of assessment said in a January 16, 1997 memo to us: "Today there are no answers....They will be answered over the next few months through consultation with the municipal sector."

Two months later, assessment's own newsletter, the Grapevine, advised employees who wonder about their jobs that "over 150 written questions have been received from divisional staff about the transfer of the division to the municipal sector....answers are going to be provided as soon as possible." A month later, today, we heard one sentence in the presentation that talked about where we and our colleagues are going to work.

What can be said about an employer who gives its employees the biggest challenge of their working lives and at the same time throws them into a black hole? The workers charged with this task are watching while their managers contract out work to unknown temporary help. But the employer goes further by giving the workers unofficial notice of the end of their employment with the provincial government. The job stress we're undergoing is multiplied many times by the stress of not knowing what to prepare for.

If the government has a plan, why do they not share it with their workers? It was not long ago that employees were assured that we were the most important resource for the government, yet we are now treated like cattle. We are left hanging for months and then told that our union will not even be at the table to discuss our future. We are uncertain about our pensions, our paycheques, and we're wondering if we should start looking for new occupations, and I have. If we ask questions or talk about the issues among ourselves, we are reprimanded and told, "There is a job to do." I've been reprimanded for talking about it.

The Minister of Finance and the government owe an apology to all of the workers in the assessment division. Yes, we chose careers in the civil service, but most of us chose that path when we gave the public the best service possible, and in turn we were treated with honour and some respect. Not many employees in the assessment division would feel that way today.

1620

The 1998 reassessment will suffer for this low morale of the workers. It will suffer for the contracting out of our work. It will suffer because it has been shoehorned into the political timetable of this government.

Bill 106 should be amended to give time to return a high quality assessment role based on actual value. Our municipalities and taxpayers are expecting the government to make sound decisions that will ensure our

property tax system is trustworthy. It will not help the business or political climate of Ontario if the assessment system is in a shambles in 1998.

Just on a personal note, my grandfather was the assessment commissioner for Sudbury after the Second World War, and I'm named for him. Assessment is more than just a job to me. This is important, and I've devoted my working life to it, and many, many people have in the assessment division. Thank you.

The Chair: That leaves us about two minutes per caucus. We could start with the Liberal caucus.

Mr Phillips: I appreciate your putting the human side on this. I can imagine how stressful it is for your members. Can you help us on what the importance is for getting this thing done in the calendar year 1998 versus calendar year 1999, from your experience?

Mr Presley: That's not assessment related. There's no reason, in assessment terms, for doing it this year.

Mr Phillips: When we've got experts like you here, if you don't mind me asking a question on the bill as well — I appreciate that your brief is on your members and we've several times raised it in the House, as you know. I think, by the way, you point out correctly what the Who Does What panel recommended. That was handpicked by Premier Harris; it wasn't some other group that selected those people. They recommended strongly that assessment continue to be a provincial responsibility until — I forget the term they used —

Mr Presley: Stabilization.

Mr Phillips: — the system is stabilized, and clearly it won't be stabilized. Maybe on that point, what's your sense of what will happen? It looks to me like the government is absolutely planning to dump this in the laps of municipalities. What do you think will be the outcome of that come January 1?

Mr Faulknor: If in fact this proceeds as to be expected, there are various suggestions as to what going to the municipalities could mean in terms of whether we actually physically are turned over to the municipalities, or whether we become an agency operated by the municipalities, or whether we become a schedule 2 agency operated by the government, or even a private agency that sells its product to the municipalities. That is very much unclear.

In the end, my guess is we're going to be dealing with less staff. One of the advantages to the idea of at least some sort of municipally run agency, if that is the course they choose, would be at least we'd maintain some sort of uniformity. The concept back in 1969 when the decision was to take over assessment offices was to bring about some sort of uniformity across the province. In fact, we seem to be turning in the opposite direction if in the end we go back directly to the municipalities, because then it becomes each municipality doing their own thing and we'll lose that uniformity that we have achieved.

Mr Pouliot: Thank you kindly. A very moving presentation indeed. It takes courage, under the present climate, to come out with phraseology such as "treated like cattle." Many of your friends, colleagues are being put on the human junk pile to benefit the pockets of a few who can very well defend themselves.

To do this inside the context of the civil service takes double courage and should serve as a warning. What I find ironic is, on the eve of 3.8 million, approximately, units to be reassessed; on the same eve of the most important and most massive reassessment, as you've mentioned, in North America; at a time where you would need more — not the same, certainly not less; at a time where you would need the expertise at least to the same level and the opportunity to train others, the very opposite is happening.

It is frightening indeed, because once you embark on this road, there's no getting off it. The consequences are tedious. It will take time to rectify, so it has to be done right because it is done for some time and it serves as the basis for other assessment and reassessment, not a rush job which will be appealed at every opportunity.

You've mentioned, in your opening, market value. There's little difference — when we say "market value," "current value," "actual value," we're talking about the same thing. I see you smile. Will you please extrapolate?

Mr Faulknor: A rose by any other name.

Mr Pouliot: So you're the expert in the field. How long have you been doing this, serving the public?

Mr Faulknor: Thirty years.

Mr Pouliot: And you, sir?

Mr Presley: Twenty-two.

Mr Pouliot: Twenty-two and 30; that's 52 years.

The Chair: Mr Pouliot, I think we've used your time. Mr Hudak?

Mr Pouliot: Tim Hudak thinks there's a huge difference, but he's an overnighter. He's just been around the block for less than two years.

The Chair: We envy his youth, if nothing else.

Mr Hudak: Thank you for your presentation. I appreciate your concerns, especially around the labour issues. Like Mr Phillips, I want to make use of your expertise in the field, if I may. The finance minister earlier today spoke about the 100,000 or so appeals pending in the Toronto area, and I know in the Niagara region, where I come from, it's something like 30,000 appeals, roughly. I certainly get a lot of calls to my office from constituents concerned about when their appeal will be heard, representing some substantial tax differences.

My question to you: Is the process envisioned in this bill, the single level of appeal, and also making the system of taxation more transparent — do you think we'll see an end to these backlogs of 100,000 or so?

Mr Presley: That's directly related to the quality of the assessments that we return. In BC, which is used as the rule of thumb, they have a very low appeal system, but on the other hand they've grown into the system that they have now, and they do it regularly. It wasn't dropped on them and said, "Here, produce it in a year."

If you produce a good assessment system that's defendable — and I've done that, even in places where people's assessments have jumped enormously. The Lake Bernard ratepayers' association up by Sundridge was where I returned the last waterfront, and it was during the height of the jump in recreational values. Our appeal rate was very low because I went to every property owner who appealed, went to the ratepayers' associations, explained what the basis was. We had a very low appeal rate, but I had a system that I had worked on and I

believed it. I had visited almost every one of those properties myself, not somebody from a company I didn't know.

When we have a quality system, our appeal rate will be very low. There's no argument from us that the assessment system in Toronto and much of Ontario is terrible.

The Chair: Thank you, gentlemen, for presenting to us today. We appreciate your time.

1630

CANADIAN PROPERTY TAX ASSOCIATION

The Chair: We now welcome the Canadian Property Tax Association, Mr David Fleet. It's always nice to welcome back a previous member of the House, Mr Fleet.

Mr David Fleet: Thank you very much. I'm joined by two other representatives of the Canadian Property Tax Association. Sitting to my immediate right, the middle of the three of us that you're looking at, is Mr Barry Remington. He is the immediate past president of the Canadian Property Tax Association, serving in a national capacity. Our current president is based in Edmonton, and we thought it appropriate to have a representative of the national body. He is also the manager of property taxes for the Consumers' Gas Co Ltd.

Farther over to my right is Mr Peter Cobon. He is currently the secretary of the Ontario chapter of the Canadian Property Tax Association. He is also the senior manager, real estate taxation, for the Royal Bank of Canada.

I am currently the chair of the Ontario chapter of the CPTA and, in addition to that, am a lawyer in private practice with the firm of Poole Milligan. We represent property taxpayers; we do not act on behalf of assessors.

There has been a brief provided to you through the clerk. I do not propose at this point to read through it all and trust that you will be able to look to that for the detail. But we thought it appropriate to provide you with a synopsis of the main points outlined in the brief.

Perhaps the first and most critical element is that the CPTA is composed of a large number of companies and individuals. It's an organization that has been around for over 30 years now and has been very active. It is non-profit, it is non-partisan and it puts forward very strongly on behalf of a very wide range of taxpayers, particularly in the commercial-industrial and multiresidential classes, a message that reform of property assessment and taxation is needed and strongly supported. To the extent that this bill moves that agenda forward, it is supported.

The purpose of reform must be to achieve the fair and equitable distribution of the property tax burden. Sometimes in the heat of the political forum, that purpose gets lost. We want to emphasize it's the distribution, it's a zero-sum game in some respects, and the fair and equitable distribution is the key. We urge that this reform be achieved by applying objective and non-partisan criteria, and we refer you expressly to the list of criteria set out on page 4 of the brief. These are policies or principles with respect to both assessment and taxation. We distinguish to some degree assessment concepts from taxation concepts, but they're obviously linked. These criteria have been established by the CPTA for many years, and we would urge you to measure the provisions in the bill against these criteria.

One of the concerns we have about Bill 106 is that third reading ought not to be proceeded with until there has been a greater opportunity for public consultation. Quite simply, there are a lot of significant provisions in this bill. Much of it is very technical in nature. There was not a large degree of consultation within the assessment community before the bill itself came out. We appreciate the opportunities that we have had with senior staff of the Ministry of Finance and the Ministry of Municipal Affairs and Housing. They have been very helpful, and we've had some sessions with them.

Having said that, there is much not yet come forward, partly because we are advised that there will be another round of legislation and partly because of regulations. Frankly, until you can see the whole group of things, it's difficult to comment on many parts. In fact, rather apropos to that, I was provided today with a draft regulation. It doesn't appear to be finalized, but it deals with the classification of properties. I'm very appreciative that we see it today, but I can't begin to comment on it. I haven't, literally, had time to read through it yet and consider what's there, nor have we had a chance to consult with our own members on it.

There is a need to have that kind of information out. In some respects the classifications are the guts of this reassessment. Quite clearly, there's a need for more communication on that type of issue. We're not proposing that the bill itself or the principle of the bill be stopped, merely that there be time to get the additional information available.

The CPTA also urges some further consideration to the property classes. We would suggest that the criteria to determine those property classes ought to be contained within the bill. We've got a draft regulation. Why can't that become an amendment in the bill, assuming there's adequate consultation?

Second, it should be clarified that those property classes are defined to be only on a province-wide basis. We have been told that may be the intention. We're not so sure that that's what the legislation at the end of the day would permit. If they're going to be defined, the classes at least ought to be defined province-wide.

There are some real questions about whether you should have a class-based system at all. Query why you should have a higher tax burden because your property is labelled "industrial" as opposed to labelled "commercial" when both are being used for a profit-making purpose. If they're of equal value, why wouldn't they have an equal tax burden?

There are some other questions about the relationship or the range of tax burden between commercial-industrial properties and residential. We would urge that the property classes and the concept of tax bands be amended. The purpose of this reform, as we understand it, is to remove inequities. There is no guarantee in this bill — this may be the greatest single disappointment with the bill — that over time the inequity between the commercial-industrial

and even the multiresidential classes vis-à-vis the starting point, which is the residential class, will ever get corrected.

Even when you establish tax bands, the limits provincially that you say ought to be maintained, we understand this legislation to mean, as drafted currently, that if you're outside the band, you'll never necessarily get it corrected. It's totally at municipal discretion. Well, frankly, if the municipal discretion was going to work, we probably wouldn't all be here. That causes the problem; that's not the solution.

There are also significant problems for commercial-industrial properties with the removal, if it goes ahead, of the educational portion of realty taxes only for residential properties. It appears to leave the commercial and industrial property owners and occupants open to being gouged. There's no clear mechanism even for how this is going to go forward, whether the tax rate is going to be determined provincially, regionally or municipally for that portion.

There are additional problems with how the tax rates will mesh with the phase-in provisions. Frankly, the municipal phase-in provisions are unworkable in certain respects. I draw to your particular attention the proposed section 372(3), which appears to take out of the phase-in the impact of the educational portion of taxes. Frankly, nobody out in the real world does it that way. They're going to look at their tax burden in 1997, their tax burden in 1998; they aren't going to do a separate calculation for the educational portion. We suggest that that part of the proposal is just unworkable. It will be a nightmare for everybody, including municipalities.

We urge that there be a requirement that where there are successful assessment appeals, interest be paid to those taxpayers at a reasonable, provincially set rate. For the most part right now, if you've been overassessed and you are successful on an appeal, most municipalities do not pay interest, and those that do tend to pay at a very low rate. That doesn't strike us as very fair, and we doubt very much if you would think it fair if it was your tax money you had overpaid.

There are other problems in the bill. Time doesn't permit us to get into all the technical aspects, but the assessment appeal provisions, the impact of vacancies on commercial and industrial properties and other transitional matters should be revisited and clarified.

Lastly, there has been much discussion about a couple of things; one is a two-tier — it's not in the bill, I might add — tax rate for commercial-industrial properties. That would be completely inequitable. It just won't work. It's not fair. We hope that doesn't see the light of day.

The second thing is that if there's going to be a new assessing authority, we would strongly urge the government to stop just consulting in that area with municipalities and take into account all of the stakeholders. It's our strong view that taxpayers should be consulted about how that authority might be structured and how it should operate, and that authority ought not to be a captive of the tax collector, which is the municipalities. It's certainly an area where we think there's room for positive creativity. We don't think the assessors should be biased in favour of any one side. That's the whole point: It's supposed to be fair and equitable. We would urge that some reconsideration be given in that regard.

I understand that Mr Remington will be making a few comments now.

Mr Barry Remington: Yes, if I may, David. Thanks. I'd just like to make a couple of quick general comments that tie into David's comments and the concerns that have been addressed here.

If this government is to improve and promote fairness in its new system of property assessment and taxation, then it should recognize the necessity of creating a level playing field in order for commerce and industry to be cost-effective in the global marketplace. What I'm saying is that the taxation policy itself should have no bearing or influence on the pricetag when customers make their choice.

As well, if businesses are to retain and expand investment and employment here in Ontario, the principle of fairness should be to restore the balance and stability between the different classes and tax rates rather than creating a tax environment which is totally unpredictable for the 1998 taxation year and beyond. In fact this piece of legislation, in my mind, could lead to certain sectors negotiating tax rates for each and every municipality throughout Ontario, which could create a lot of complexities down the road. Those are my comments. Thank you.

1640

The Chair: That leaves us with about six minutes, two minutes per caucus. We'll start with the NDP, Mr Pouliot, and that should include the answer.

Mr Pouliot: It's always a pleasure, David, thank you. I think your association is well served by having you as their president. I see in front of me "Canadian Property Tax Association," so I was trying to define the membership and who is Canadian, property, tax, association, and then I see, I got it, thank you: Royal Bank, Inco and Stelco, Westcoast Energy, so now it's better defined.

I see on your page 8 that you look at — I like your comment — "residential properties will have removed from them the burden of an educational portion of realty taxes," yet, "That burden will remain on commercial and industrial properties." You know that really what is being done here is a tradeoff and it's not revenue-neutral. In many cases people will end up paying more taxes when they look at the overall tax bill than they do now. Do you agree with that, that it might happen, it will happen in some cases?

Mr Fleet: Well, one of the difficulties is finding out exactly how it will impact the classes and, quite frankly, at different briefings I've had somewhat different answers to that very question. Ostensibly, if you're taking $6.2 million or billion, whatever the number was, off residential and you are loading it down on everything else, assuming that that's revenue-neutral — and I take it the critics would say it's not — but even if that's revenue-neutral, it strikes me that under that formula you're getting a disproportionate burden borne by commercial investment in a multiresidential property.

Mr Pouliot: So it's entirely possible that your general purpose will increase and you won't get the benefit of a decrease on the education side, and you couldn't care

less. I mean, a buck's a buck, a tax is a tax whether it goes for the seniors at the seniors' home or for the little one going to school. It's a dollar coming out of your pocket, right? It's a dollar that stops you from creating yet more jobs.

Mr Fleet: At the end of the day there's no question the companies and outfits that we represent are interested in the tax burden that they're going to bear — no doubt about it.

Mr Spina: David, good to see you again. You've been in this game a long time. You've seen a lot of discussion, a lot of analysis has gone into this thing, and yet you feel that it needs more consultation. I'm a little surprised at that, but I want to really zero in on the other issue that both of you alluded to, and that was the basic mistrust of the municipal governments that I'm reading into your comments.

You used an expression like, this is an opportunity for them to gouge businesses; you're talking about the complexity that can arise as a result of having to negotiate tax rates with different municipalities. Frankly, I would view this as an opportunity as a businessperson, because if I'm shopping around for a location or a potential site, then this is an opportunity for the municipalities to compete for business. I don't have a fundamental problem with that.

Mr Fleet: I didn't use the word "mistrust." I'm not sure I'd be comfortable with that word.

Mr Spina: No you didn't use the word "mistrust." I did. You used that they had the opportunity to gouge business.

Mr Fleet: I guess you get into the problem of what's sometimes called bonusing in a planning context, and the difficulty that has been faced is historically with the reassessments in regions that, given an opportunity to shelter some group of taxpayers, the commercial-industrial classes aren't the group that gets sheltered, they're the ones that bear the penalty and, in a municipal voting structure, the residential taxpayers are the ones who get sheltered, if anyone does.

Over the last 30 or 40 or 50 years the general tendency in most places in Ontario is that residential property values have risen more rapidly than commercial and industrial property values. Consequently the tax shifts with reassessment, if allowed to flow naturally, if I can put it that way, would be borne more by residential properties.

In order to stop that, municipalities, and to some extent the province from time to time, have interfered with what would otherwise occur with a natural reassessment. That's what we have today. That's the problem. When you get individual municipal discretion, overall the problem that seems to come up year after year, decade after decade is that commercial-industrial property class owners or occupants tend to lose out. They tend to get beaten out in that local political milieu.

What is sought is really quite simple: a fair and equitable system. It shouldn't matter whether you're on one side of the municipal boundary or another. If the property is of a given value, it should be assessed on an equitable basis and there shouldn't be a bias.

Mr Phillips: I appreciate the presentation. I share very much what I think the tone of the brief is, that we really don't know what this bill means, and I think that's deliberate. I don't think they want clarity, because they know somebody is going to be mad. So it's deliberately very vague and we're being asked, in my opinion, "Just trust us and we'll do it."

You point out the two-tiered system, because the government wants to be able to say to small business, "Don't worry, we'll have it two-tiered and we'll make sure you get a low rate," and then to the board of trade they'll say, "Don't worry, we're having some equity here." The education one, as you rightly point out, if we don't know that, we'll really have difficulty dealing with it. Will there be a uniform mill rate for education property tax? No idea. That's how it works around here. We lost, they won and they govern.

The one specific question I've got for you is about your concern on page 7 about the difference between current use and current value. Can you help me a little bit with what the implications of that might be? My impression was the same, that the Crombie panel recommended one thing and this bill seems to be doing something different.

Mr Fleet: There's a definition in the bill about "current value" which is essentially a market value definition. There's no complaint about that. There is a provision that allows for the Minister of Finance to pass regulations that involve what "current use" means in the context of the definition of "current value." It's simply difficult to comment on the regulations. We haven't seen them yet so we don't know quite what's contemplated there.

Clearly, the CPTA supports the idea of reform. The question is making sure as it goes through, and I would hope this would apply to any bill, that it's as clear as possible, that people understand what it's going to mean both from the government side and, if you like, the user's side, the people who will be impacted. That's the principle behind the submissions today. I think Mr Remington also has another comment.

Mr Remington: I'll elaborate on that, the "current use," which is a special regulation that's been introduced into this legislation. I think the interpretation of what constitutes current use might vary among municipalities and that more specific regulatory clarity is warranted to ensure consistent and fair application of the current-use criteria.

Mr Phillips, I'll just add to your earlier comments respecting the revenue-neutral thing of this whole piece of legislation too as a concern. We as corporate tax people are trying to work with our budgets down the road. At this stage we are unable to make any prediction of what fallout this piece of this legislation will have at the end of it all. I think even the studies that have been done by Metro and all municipalities throughout Ontario have indicated that this isn't a revenue-neutral piece of legislation. I think it has been proven by all municipalities who have done studies that they are the losers in all this.

The Chair: Thank you very much, gentlemen, for your presentation to the committee today. We appreciate your coming today.

1650

REGIONAL MUNICIPALITY OF PEEL

The Chair: We now welcome the chair of the Regional Municipality of Peel, Mr Emil Kolb. Welcome to the committee, Mr Kolb. Would you introduce your assistants, assuming they're assistants.

Mr Emil Kolb: We can't get along without technical people. You know that. Thank you very much, Mr Chairman. The person sitting to my right is the CAO, Michael Garrett, from the regional municipality of Peel. Also we have the commissioner of finance with us, Joe Pennachetti, and another staff person, Todd MacDonald, who actually has done over the years a lot of work in trying to understand what tax reform and property tax and tax assessment mean.

Let me first just thank you very much for giving us the opportunity to come here this afternoon and give you some of our comments on Bill 106. I know, being in politics for many years, that there's been a lot of money spent over the years on commissions and consultants over this. There was the Smith report, the Blair report and the Robart report on it, so we know in Peel how much political will it takes when you take on a project like this. We're really pleased that this government has again had the willingness to address this political issue. It's been around all the time that I've been in politics and it'll be around a lot more if we don't get some answers to it.

We'd like to spend most of the time just making a few comments on it and we're here to answer any questions you might have. I'm not going to say an awful lot. I'd like to turn it over to Mike, who has had more experience within the bill and within the assessment stuff, and I'd like to help staff answer any questions you might have afterwards.

Mr Michael Garrett: We're here today because we support strongly the direction the government has taken with Bill 106. Our comments on the bill have focused at a high level today. Given the time we have, we have concentrated on three areas. The first is assessment reform and within-class fairness, within the same class of property. The second issue we want to talk about a little bit is between-class fairness, the fairness of the assessment system between classes of property and the issue of variable mill rates. Last is the apportionment of upper-tier costs and how the proposed legislation will address the problem that we've had in a significant way in the region of Peel.

You probably can't read the next slide, but there is a handout and I believe you have that. It has been handed out and it's in your package. It's an attachment to the brief we've presented.

I was fortunate enough to co-chair a committee in the greater Toronto area a couple of years ago that looked at the issue of assessment and the cost of services across the GTA. One of the pieces of work that was done with the collaboration of a lot of people, provincial and municipal staff, was the difference in the assessment of property of equal market value across the GTA.

I only put this slide up, not because I expect you to look at all the data that are here, but if you draw your eyes down to the region of Peel and its two cities and one town and go across to the right-hand side or the industrial class of property and just look at the difference in the taxes that are paid for a property that is worth the same amount — the same industrial property, the same value, say, between Mississauga and Brampton — the difference in taxation for that same property is in the hundreds of dollars, a significant difference, and really is a function of an assessment system that has been broken and flawed and needs some correction. We want to deal with that, we need a solution to that, the solution is in Bill 106 and we support that.

The next slide deals with the solutions the government has proposed within the legislation. First, coming up with a common base year makes a lot of sense. In the region of Peel we have years of assessment that range from 1969 through 1985, and clearly it makes for distortions in the assessment system. It's crucial when dealing with upper-tier levies of one sort or another, whether for education or for upper-tier services, to have a common base year.

We believe that the proposal for multi-year averaging makes sense. We have seen fluctuations in assessment when market values go up and down, depending on some circumstances, and to have some system whereby the assessment is averaged on a rolling basis to avoid those fluctuations makes a lot of sense and adds stability to the assessment system. The three-year proposal that is in the legislation makes some sense from our perspective as well.

In addition to that, the legislation proposes some allowance for phasing, eight years for phase-in. That's a judgement call, of course, but at the very least the legislation proposes that if there is a phasing plan, it can't be rear-end loaded. The phasing must be at least equal or loaded towards the front end so there isn't a disproportionate hit on taxpayers at the end of the eight-year period.

That makes some sense to us too. So one could, if there is a significant impact with a class of property, divide that impact by eight and have eight equal increments. It wouldn't make any sense at all to have zero increments for seven years and hit them all with the impact in the last year, so that piece of the legislation makes sense as well. We understand, of course, from all of this that none of this changes the tax revenue that's generated. Rather, it redistributes it within those classes of property.

The next slide deals with the second problem. We call it "between-class fairness." By "classes" we mean industrial or commercial or residential or multi-res. That's one of the issues that has been raised and discussed in detail in Toronto, and I guess this quote from the Golden Goose report prepared by the Metropolitan board of trade is the one that —

Interjection.

Mr Garrett: The Golden Goose report, yes. I guess that's in the other chambers.

This deals with the issue of taxing one class of property unfairly relative to another tax.

The next slide after this, from the same report that was done by staff a couple of years ago, really illustrates the magnitude of the problem. We're not immune to the problem in Peel, although we don't have the kind of

problem that Toronto has. You can look at the issue in Toronto, but in Peel, again, if you look at the industrial column — Todd, you might just draw your pencil down to that — the difference between the property class factors, the 155 and the 133 between Brampton and Caledon, is significant.

That's part of the problem with the derivation of the assessment for industrial land that causes a distortion between classes. We can't explain why they're different in the current system. It makes no sense at all. The current proposal will change that and everybody will be brought on to a level playing field.

The issue of between-class assessment: The factors that exist as a relationship to the single-family residential class vary widely from one municipality to another. Even within our municipality you can see the difference in those ratios between residential and multiresidential, for example between Brampton, Caledon and Mississauga. There are significant differences, very difficult to explain, and they end up being translated into the assessment numbers that are used to generate taxes.

The solution that's been proposed: Bill 106 proposes a variable tax rate solution to deal with that. We also believe that makes sense. It limits the notion of bonusing so that one municipality that may have different circumstances from another can't give untoward advantage to some industrial land or commercial land, that within an upper tier those levels are the same. In fact, between municipalities across Ontario the bands that are established must be similar so that there can't be significant changes in the way property is assessed.

The creation of those tax bands, which of course we haven't seen yet, will be all-important. If they're infinitely wide, they don't solve the problem, so there has to be some constraint on the width of those bands. This will at least prevent the unfair worsening of tax distribution as it is now.

1700

What has been explained so far is that municipalities can stay where they are, and if they're not within the band, they can't aggravate the situation; they must move towards the band in their tax rate. We're going one step further and suggesting that the government might want to consider compelling municipalities to at least gradually move towards those bands that will be established so that at some point all municipalities are operating off the same playing field, moving the tax ratios within the bands that are established. Otherwise, the anomalies or the inequities, the unfairness that might exist in one municipality, could continue. There should be at least some progress towards achieving some equity among municipalities.

The final point deals with the fair sharing of upper-tier costs, whether they be education or regional costs or, I suppose, county costs. The current proxy apportionment formulas are very complex and difficult to understand and are seriously flawed. Not one of them is right. We have weighted and equivalent systems; we have equalization systems. In the region of Peel it's created quite a problem politically because there is disagreement about which system, which apportionment formula, is best for which municipality, which lower-tier municipality within the region.

The Bill 106 apportionment proposal is ideal. It means that assessment is based on a common year, all the market value is based at the same time, and so there should be no argument about the distribution of upper-tier costs. So the way that is being proposed to be handled in the legislation is very positive and there can be no argument about how the costs for education or any upper-tier costs are distributed among the lower-tier municipalities. It makes a lot of sense to have a common base year, and that will correct a problem that we've had in our municipality for some time.

In conclusion, we strongly support Bill 106. We believe that on day one it creates some within-class fairness so that all of the single-family houses or all the industrial land of similar market value will be assessed the same amount in the region of Peel. That's a fair system. We support that. It ensures that the tools are in place for municipalities to make decisions on the between-class fairness issue, so if a municipality wants to put more weight on one class of property or another as a result of its revenue decision-making process, they've got to live with the bed they make in that regard. The tools are in here for municipalities to make those decisions, and we support that. It ensures, as I said, fair cost-sharing in two-tier municipalities where we've had a problem. Technically, the method for implementing this plan seems to be reasonable, this bill, and we're in general support.

The Chair: Thank you very much. We move to a three-minute round of questions.

Mr Spina: Thank you, gentlemen, for the presentation. I know this has been a question that has surfaced in your area through the mayor of Caledon, which was your former position. Her concern was the loss of revenue from farm land. As a result of these changes, I'm just wondering how you think that can be addressed by some of these changes.

Mr Kolb: My understanding was that would be addressed in the disentanglement and that there would still be a portion or some latitude in there within that amount to be picked up. I think what's been very difficult, Joe, has been that it's very hard for a municipality to put those numbers together which might represent what the number might be in their particular area.

Again, it comes down to maybe a little bit larger issue, and you can take that into any municipality: What is the highest and best use for the land? So you can have designations on land, and of course it is being tried, as you know, in our region by the bigger city to the south, charging those developers an industrial-based tax on industrial land that has not yet been built on, and it basically leaves you with the same kind of situation in hand. So I think some of the answers to it will quite honestly come more when we have better answers to the disentanglement program, which I believe is a fairly large number in the province being picked up.

Mr Phillips: I'm sorry we don't have more time, because I appreciate your expertise. You don't mention the business occupancy tax, and I wonder if you've considered how you're planning to handle that, the elimination of the business occupancy tax. Where is that revenue likely to be made up and what, if any, impact will that have?

Mr Garrett: The taxing authority is the local municipalities, the lower-tier municipalities, so you might be better to address your questions to those. Our presumption, however, is that that will be replaced by some sort of realty tax on the industrial-commercial sector and that it will be made up in some way. What the implications of that are, we can't answer. We haven't analysed that.

Mr Phillips: You've given us some really good information here on the education portion. I look at your table and you can see that in the Metropolitan area on the commercial sector it's very high; well over 50% of the tax is for education. The province, as we know, plans to continue to send a bill to municipalities for education for the commercial-industrial sector.

Am I to take from your comments that your recommendation would be that over time the province, on the property tax, should be looking to lower the amount of revenue they raise where they are outside the bands? Your suggestion is that the legislation should compel municipalities to bring the tax rate relationship within the bands. Am I taking from your recommendation that we should be urging the province in Metro Toronto to reduce the amount of money they raise from the commercial-industrial tax base for education?

Mr Garrett: If I can, our intention is to level the playing field. The burden of taxation for education right now, within Metropolitan Toronto or within any municipality, depends on the distortion in the second table that I showed you, those class factors. So yes, the shift in educational costs, if that playing field was levelled, would migrate at some pace towards the residential sector from the industrial-commercial sector if municipalities were compelled to bring their tax rates within those bands.

What we're suggesting is that that's the right thing to do. For example, in the region of Peel the taxes for education are about 67% of the property tax bill. In Metropolitan Toronto you'd know better than I would, but they are probably 51% or 52%, significantly lower. So the residential sector is picking up a more significant portion of the education cost than is the case within Metropolitan Toronto, for example.

The issue that is before us really is, is that right, or over time, and it may be over an extended period of time, should not the raising of that education tax be on the level playing field, comparing Toronto to Barrie, to the county of Dufferin, for that matter, and should there be some levelling of the playing field in that regard? So I guess that's what we're saying. We realize it's revenue-neutral, or supposed to be, from that perspective, but it would involve a shift. I guess it comes to a philosophical point, that we should understand the costs and who should be paying for them: User pay as far as we can.

Mr Pouliot: Obviously you're right on top of this issue, and for yourselves and those you represent this is a welcome and long-awaited chart. You make an excellent case in terms of pointing out to us what the disparities are and what could be under a "fair tax system" a departure to say the least.

I note that in your presentation you said the bottom line or the revenue side within context does not change, and by your answer you've factored in that there will be, by virtue of the occupancy tax, a break for the industrial. They will pay less. If you're a large tower, you will pay less, if you're a large industrial, you will pay less, and you will pay less for hotels, for instance, apartment owners. But you seem quite confident that you will have flexibility or imagination to pick up the slack. At least you will have the tools to achieve uniformity in terms of assessment, and that's your feeling.

I've been following these dossiers as they develop and it's fairly massive. That's the one side of the equation, and I'm happy that Peel is pleased with 106, but there's a lot of webbing and meshing. There's $1 billion coming out of education here. It gives them the tools, and that's okay for them; it's not my philosophy but that's their approach, no mistake about that. There's also close to $2 billion coming out of the transfer or change in responsibilities that you have, and I know that you're very much — if you're not aware of it, as the other shoe falls, you're just about to find the costing of all these things. You'll get an instant-coffee lesson in the demographics and you perhaps will be very surprised how many people are my age or older and they're coming to Peel and they're saying, "You're now the person I deal with."

Make no mistake: There's $2 billion that people like Peel and its youth are going to have to pay and there's $1 billion on the education side. So I hope that on the revenue side you're able to recuperate whatever you've lost and whatever needs to be readjusted, because they won't send you a cheque. They don't have the capacity to do that.

Mr Garrett: It's not a matter of recuperating. I would hope the swap that's being proposed is revenue-neutral when we work it out, and if it isn't, there are going to be some adjustments made or should be some adjustments made to hopefully make it that way. But notwithstanding that, the idea is to have a fair system of assessment so that equal properties are being taxed the same way.

Mr Kolb: If I may just add another point to it, in Peel, for example, the education subsidy that we were receiving from the province was only 10% to 11%. So if you compare that to what it might have been in some other areas, where they might be receiving 60%, 70% and 80% on education, it's a fair difference. It is true that the gap you may have to work with will be on the cost of your education. If you've been paying a high residential education cost in Peel, then it's true what you say, there might be some flexibility in that, but we will not know those until we have an opportunity to see the disentanglement numbers, the final formula.

Mr Pouliot: Thank you. I'll put this into perspective. I've learned a lot more about Peel from what you're telling me. Thank you very much.

The Chair: Thank you, Mr Kolb, for joining us today and for your presentation, and your associate. Thank you very much, Michael.

There being no further business to bring before the committee, we stand adjourned until 10 o'clock tomorrow morning.

The committee adjourned at 1714.

CONTENTS

Monday 7 April 1997

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Chair / Président: Mr Ted Chudleigh (Halton North / -Nord PC)
Vice-Chair / Vice-Président: Mr Tim Hudak (Niagara South / -Sud PC)

Ms Isabel Bassett (St Andrew-St Patrick PC)
Mr Jim Brown (Scarborough West / -Ouest PC)
Mr Ted Chudleigh (Halton North / -Nord PC)
Mr Joseph Cordiano (Lawrence L)
Mr Douglas B. Ford (Etobicoke-Humber PC)
Mr Tim Hudak (Niagara South / -Sud PC)
Mr Monte Kwinter (Wilson Heights L)
Mr Tony Martin (Sault Ste Marie ND)
Mr Gerry Martiniuk (Cambridge PC)
Mr Gerry Phillips (Scarborough-Agincourt L)
Mr Gilles Pouliot (Lake Nipigon / Lac-Nipigon ND)
Mr E.J. Douglas Rollins (Quinte PC)
Mr Joseph Spina (Brampton North / -Nord PC)
Mr Wayne Wettlaufer (Kitchener PC)

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Mardi 8 avril 1997

Standing committee on finance and economic affairs

Comité permanent des finances et des affaires économiques

Fair Municipal
Finance Act, 1997

Loi de 1997 sur le financement
équitable des municipalités

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday 8 April 1997

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Mardi 8 avril 1997

The committee met at 1002 in room 151.

FAIR MUNICIPAL FINANCE ACT, 1997
LOI DE 1997 SUR LE FINANCEMENT ÉQUITABLE DES MUNICIPALITÉS

Consideration of Bill 106, An Act respecting the financing of local government / Projet de loi 106, Loi concernant le financement des administrations locales.

CANADIAN FEDERATION OF INDEPENDENT BUSINESS

The Chair (Mr Ted Chudleigh): We'll call the meeting to order. We have the pleasure of welcoming the Canadian Federation of Independent Business, Judith Andrew. Welcome to the committee. We have 20 minutes. If you would like to make a presentation, we'll fill any remaining time with questions. If you would introduce your associate for Hansard, thank you very much.

Ms Judith Andrew: I'm Judith Andrew, executive director of provincial policy with the Canadian Federation of Independent Business. Joining me today is my colleague Ted Mallett, who is CFIB's director of research. We appreciate the opportunity to appear before the standing committee on finance and economic affairs on the subject matter of Bill 106 on property tax.

You have before you a brief that we've prepared that draws heavily from considerable research that CFIB has done, basically since 1995, on the subject of property tax. I'd like to draw your attention initially to the first page, where figure 1 shows rather starkly that Ontario is the world champion of property taxation. When you do this study and look at total property and wealth taxes, Canada's ranking in this is, we levy roughly 4% of gross domestic product as of 1994, the most recent data. This is well above the level found in most other countries. On both a per capita and percentage of GDP basis, Ontario, within Canada, imposes the heaviest property tax load across the country. Local governments collected roughly $1,400 for every person in the province in 1994, or about 5% of GDP. I think it's worth noting that this tax load has been increasing fast, and that is illustrated in table 1 of the brief.

A point that Anne Golden's task force on the GTA found was that the discriminatory tax treatment of the business sector is certainly very well documented. Our own study — and you can see the results on page 3, figure 2 — showed that commercial and industrial property owners across Ontario paid double the rate of tax compared with residential properties. Although the conditions in Metro Toronto receive the highest public attention, the same problems exist for businesses right across the province. In Metro the issue is somewhat more acute, with businesses paying triple the taxes that residents pay for properties of the same value, and figure 2 illustrates, for the various regions and cities of the province, just how much businesses are paying relative to residents for properties of $100,000 value.

My colleague will get into the details of Bill 106 and how it impinges on this inequitable tax situation for business, but I'd just like to review our conclusions with you. They're found on page 9.

The bill does not actually work towards correcting the huge tax distortions facing Ontario's business community. This approach in Bill 106 would actually lock in the distortions of the current system.

We feel that it is highly likely that the measures proposed by the government in Bill 106 would lead to an increase in the overall level of property taxation on business, a very serious matter, since businesses are already shouldering far more than their fair share.

Business occupancy taxes, in our view, are not being eliminated but merely blended into the business realty tax system. Small firms will be hit harder by these changes.

Finally, we think local government accountability is at stake. Artificial tax rate differentials actually obscure the true cost of government from the voter and encourage the development of expensive bureaucracies. Witness the fact that Ontario is the property tax champion of the world. When you have a situation where local politicians can introduce spending programs, load the cost on business taxpayers and not be accountable to voters, you end up with far more local government than need be.

Now I'll ask Ted to go into the details of Bill 106.

Mr Ted Mallett: Moving back to what our members are looking for, our theme has been consistent in the submissions we've made over the past number of years to the GTA task force, to the Who Does What panel and to the provincial government in various other submissions and letters. Our members are looking for fairness not just within tax classes but between tax classes. They're looking for balance. They understand that you cannot change the system overnight. They are looking for ways to gradually move back to a fairer system. They're looking for accountability, to make sure that the structure of local government can adequately deal with the concerns of small local businesses, which do not have a strong voice at the ballot box, and they're looking for hope, because there are clear distortions in the system now. They need a signal from the government that things will get better, not worse.

Clearly we believe that many of the provisions within Bill 106 will be harmful to the small business commun-

ity. Our main point of opposition is on the variable mill rate structure as defined in the legislation. We expect that our members would pay more as a result. Our experiences with variable mill rates in other jurisdictions across the country have invariably shown that the business share of taxation goes up; it has never come down. There are limits set within Bill 106, but even with those, we feel they are insufficient to stem the approach of many local governments to want to load as many taxes on the business sector as possible.

If you want to refer to page 6, I can explain graphically how the legislation would affect our members. We do not have full details yet as to where the upper and lower limits of the so-called transition-ratio range will be. But when it is determined over the next couple of months, it would effectively create three groups of municipalities across the province. If you lined up all municipalities according to their transition ratio, that is, the effective rate of business tax over the effective rate of residential tax, you start from a very low and go to a very high area, and we would imagine that the range would be somewhere in the middle.

Under the first group, which is on the left-hand side of the chart, if municipalities are below the prescribed minimum range, they would not be allowed to lower their effective tax ratio, but they would be allowed to increase it; if they're within the range, they would be able to move freely back and forth; and if they are above the upper limit of the range, then they would be restricted from being able to increase that distortion, but they would be allowed to reduce it.

Given our experience with how local governments deal with this kind of power or ambiguity, clearly the direction would be up and not down. We've shown that in black arrows as a likely direction of movement of the tax ratios, and the grey arrow is allowed but highly unlikely. So before, we'd have a range of municipalities, but after, quite clearly you'd see, within a very short period of time, local governments would cluster around the upper edge of the defined band whenever that is determined.

1010

We recommend something somewhat different but still within the ability of Bill 106 to accomplish. We believe the province should set a target ratio at 1.18, which is the existing legislated difference in mill rates, and this ratio must be set in legislation, not regulation. Municipalities with ratios below that target would be allowed to gradually increase it, and municipalities with ratios above that target level would gradually be allowed to decrease that over time.

The second point that is also very important to our members is business occupancy taxes. CFIB strongly recommended that they be eliminated. Despite the statement by the minister yesterday in saying that these taxes were eliminated, we disagree. In fact what happened was that these taxes had been blended in to the realty tax system. They have not been eliminated at all. They have simply been called another name and blended in.

We recommend that the province take another approach and gradually phase out the statutory rates by 5% per year. This would eliminate the occupancy tax for small businesses within about six years, and for the largest firms, banks and so on, it would take 15 years to get the occupancy tax system out of the property tax scenario.

We're also concerned about the phase-in measures dealt with in the legislation. We strongly believe that no one class of property should be allowed to subsidize another class of property through transitions to a more appropriate, more level playing field for taxation, and we believe the legislation needs to be tightened up in this regard to ensure that the business sector does not have to pay for tax offsets or tax subsidies or transition allowances for the residential community much along the lines of what was — the system proposed by Metro Toronto back in 1992 clearly was a huge disaster for the small business community and we would hope that provincial legislation would prevent that kind of game-playing from being carried out again.

CFIB is also concerned about the impact of the education tax uploads. We're concerned that the upload removal of education from the residential portion would come completely off the residential portion but the download conceivably could, in part, be applied to the business community and that would effectively raise business taxation in the province.

Finally, with the development of new tax classes, we can understand the goals of the government in saying, "If there is need to offset or create lower tax classes for particular businesses or small business, then one should do so." We believe special measures for special classes are inappropriate in principle. If we had a properly functioning system in the first place, then these special rates would not be necessary, because conceivably it could be a backdoor approach to bonusing or could create internal divisions within the local business community. We believe that ultimately government should be looking towards reducing the number of tax classes in the system and not increasing those.

In conclusion, CFIB strongly feels, and the evidence behind us is pretty conclusive in showing, that taxes will increase on the business sector if they are allowed to do so, and we hope that the province can take strong measures to provide hope to the small business sector. They want to see their taxes reduced over time and not increased.

The Chair: Thank you very much. We have about six minutes left, if we could use that time for question period.

Mr Gerry Phillips (Scarborough-Agincourt): I appreciate the thoughtful brief, as usual, from CFIB. We normally get about one question, so I'll just try and pick one area, the business occupancy tax. We can't get from the government any impact studies, which we think is most unfortunate, because we're going to be asked to approve legislation and then be held accountable when it hits the street, without knowing the impact. So we've done our own little calculation. My assumption on the business occupancy tax is this: Every municipal politician I've talked to has said that the most likely event, or the event, will be that the business occupancy tax will be added back on to commercial-industrial, and second, by this law, it has to be added back the same across the board by definition.

The calculation I've done suggests that things like — I hate to use a bank tower, but in Metropolitan Toronto that is the one that's most easily identified — a bank tower could be looking at a tax decrease of $4 million or $5 million, without much doubt, and small businesses — I use the bake shop — would be looking at a fairly substantial increase in their property tax.

You've got this table in here which I can't quite put dollar numbers around. Would you agree with the assessment I've done, or have you done a different one that would show different numbers in terms of the impact of redistributing the business occupancy tax?

Mr Mallett: A lot of the dollar-for-dollar impacts really depend on where the 1997 assessment falls out, but we do agree with your belief that the small business sector will pay proportionately more as a result of the business occupancy tax being evened out across the business sector. If you look at the chart in figure 4, most small firms are in the 30% tax class. The best number we've seen is that the average is around 42% if all the properties were blended together for a single tax. Conceivably, that means about a 35% increase in the business occupancy tax portion for the average small business in the province. We call that unacceptable, particularly in light of the huge distortions that are also present on the assessment side as well as the rate side.

Ms Andrew: Incidentally, we have requested numbers and have not received them either.

Mr Gilles Pouliot (Lake Nipigon): My friends, a renewed pleasure indeed. As always, I've come to expect the kind of presentation which is well researched.

I'm wrong this morning: I had expected that you would support — the government has support from the bankers. The government has support from hotel owners and large apartment-unit owners as well. I'm sure they will pass their savings along to the consumers, as they usually do, or part of them.

I don't wish you to be too political, but I just want to set the table, with respect. Mike Harris promised that by the year 2000 there should be a 10% decrease in property taxation. The people I listen to are sceptical, because all kinds of things can happen in the future years and they can see some of the downloading coming up.

You've painted a scenario whereby you remove the education portion of the tax bill at the residential level, but at the commercial and industrial level it stays, and then as you take on new responsibilities for general purpose, you will get the surplus. That's an entirely possible scenario, right? You are not a beneficiary of a decrease or of a tradeoff because you still pay school taxes, and any excess burden at the residential level for general purpose, because of new responsibilities, you'll be asked to again pick up. Bill 106 could result in an increase in taxes, not a decrease. That's what you're saying, right?

Ms Andrew: Absolutely.

Mr Pouliot: And you've talked about Ontario being the champion of property taxation.

Ms Andrew: The worst in the world.

Mr Pouliot: This really appals me. What you have with these Reform-Conservatives is as good as it gets for business people; that's what they say. But unless you're a banker or an insurance company, you're like the rest of us. You might as well go and work at the factory with a T4, because this lot here are not your friends. They're the friends of the big ones.

1020

Ms Isabel Bassett (St Andrew-St Patrick): A couple of points of interest in your submission; certainly we'll be looking at it, but there are a couple of points I'd like to raise. Currently, as you know, there's $200 million in arrears in terms of collecting on the BOT, and those savings should be able to be passed on once we have a system that we feel will be more equitable.

Then my colleagues keep talking about a 42% blend; I have some figures here. If that indeed is the case —

Mr Phillips: The CFIB said that.

Ms Bassett: All right — then these companies have the opportunity of decreasing their payments. For example, small businesses that provide consulting and financial services pay at 50% or 75%; small manufacturers pay at 60%; retail chain stores with more than five outlets pay at 50%; small engineering firms, medium professionals pay at 50%; and small software developers and high-tech firms pay at 50%. Those companies would stand to see a decrease.

Ms Andrew: Absolutely. There are companies in all those categories, but we're saying that predominantly small business categories would tend to be lower than the average and predominantly big businesses would tend to be in the higher than average. So when you average it out at 42% or whatever it is — we haven't been given the data to know exactly — then disproportionately, small businesses will see their rates going up, although some may enjoy a benefit.

Mr Mallett: These businesses that you mention would see a larger decrease under our proposal than under the proposal under Bill 106. Anybody within the business sector, including banks, including trust companies and consultants, financial planners and so on, would see larger decreases as a result of our recommendation as opposed to what the province is proposing.

The Chair: Thank you very much. I appreciate the presentation made by the Canadian Federation of Independent Business. Thank you very much for coming and seeing us today.

Ms Andrew: Thank you for the opportunity.

ASSOCIATION OF MUNICIPAL CLERKS AND TREASURERS OF ONTARIO

The Chair: We now welcome the Association of Municipal Clerks and Treasurers of Ontario, Mr Ron Shaw. Welcome to the committee, sir. We have 20 minutes together, and if you have any remaining time, we'll use it up with questions.

Mr Ron Shaw: Mr Chair and members of the committee, my name is Ron Shaw. I'm the immediate past president of the Association of Municipal Clerks and Treasurers of Ontario, what I'll refer to as the AMCTO. Our current president will be addressing your committee hearing scheduled in Ottawa later this month. With me today is Bob Heil, who's the corporate manager for the town of Haldimand and a fellow member of the AMCTO board of directors.

The AMCTO is the largest voluntary professional association for municipal government managers in Canada. Clerks, treasurers and CAOs are a part of self-regulated profession in which the AMCTO is the professional certification body. The association has been in existence since 1937.

Our current membership is over 2,500 municipal officers and our members are represented in approximately 93% of municipalities in Ontario. Clerks and treasurers provide the expert administrative support required for the efficient, continuous and professional delivery of municipal services. Clerks and treasurers are akin to the non-partisan heads of departments in provincial and federal government administration, where a neutral expert public service is central to effective administration.

We're here today not to condemn, nor to condone, Bill 106. We're here because we are the ones who will be responsible for ensuring effective implementation of this new legislation. We believe we have a duty to flag concerns and issues that could be problematic once Bill 106 is passed and applied across Ontario, and we'd like to provide some foresight into the restructuring affairs. I begin by expressing our appreciation for the opportunity to appear before the committee and to put our views on Bill 106 before you and on the public record.

There are numerous issues the AMCTO could raise with regard to Bill 106; however, we will not inundate you with all of our detailed concerns. Rather, we have provided you with a separate written submission that identifies AMCTO's concerns and details our recommendations.

In order to make this presentation more digestible and to fit it into the time we've been allotted, we would like to take this opportunity to raise our priority issues and recommendations. There are six key issues: (1) current value and current use; (2) multiple use properties; (3) increases during a current value year; (4) upper-tier requests for assessment rolls; (5) notification by the assessment commissioner; and (6) authority of assessment.

Our first concern relates to the current value and current use provision. Section 12 of Bill 106 repeals subsections 19(1), (2), (3), (4) and (5) of the Assessment Act and provides the option for the current value of land to be related to its current use. Further, the new section provides that regulations passed by the minister on this issue will not apply unless a municipality opts to have such regulations apply.

This entire section is confusing and is further complicated by the extent to which it depends on regulations. This section requires significant clarification or it could possibly turn into another source of costly appeals. Why? Well, for some fairly basic reasons. This could potentially lead to an instance where land with similar uses and of similar value could be assessed differently depending on whether a given municipality opted in or out of these provisions.

For example, two identical properties being used for farm purposes in two high-growth municipalities could have substantially different assessments depending upon whether or not both municipalities chose to implement the regulations related to current use, particularly if the property class that applies is determined by zoning or adjacent uses or some other similar criteria.

Our second issue revolves around several questions arising from multiple use properties, including: (1) How will the information related to multiple use be presented on the assessment tape? (2) Will the residential component of a farm property and a set portion of the land be assessed at the residential rates?

Both of these questions must be answered and communicated early in the process to allow municipalities to make the necessary adjustments to computer systems, tax history files and property tax procedures. This matter may be less of an issue once it is clear how the information related to multiple use properties is to be shown on the assessment tape.

The third issue we will raise relates to the increases during a current value year. The bill provides that any changes that would increase the value of a property during a valuation year must also be applied to any increase in the value for any year included in calculating the average value. AMCTO recommends that the same rule apply to decreases in value. There should be consistent application of a principle or methodology that applies to changes in value of a property, regardless of the reason for the change.

The fourth issue we will raise relates to section 24 of the bill. It provides for the addition of subsection 36.1(1), which requires an upper-tier municipality to request the last returned assessment rolls for those municipalities within its jurisdiction in order to receive them. Why not just make the delivery of a copy of the roll to the upper-tier municipality mandatory? That would be a commonsense provision.

In a two-tier system, the upper-tier municipality is responsible for establishing the tax ratios for use within local municipalities. Please refer to section 363(3) for the establishment of the phase-in provisions related to tax increases or decreases, section 372(1), and any tax deferrals for low-income or senior taxpayers. If the upper-tier delegates these three responsibilities to local municipalities, the legislation should also provide the upper tier with the option of declining to receive a copy.

Section 25 of Bill 106 provides for the addition of section 39.1 to the Assessment Act. This brings us to our fifth concern, regarding changes to the appeal process. Subsection 39.1(4) provides that the assessment commissioner shall notify the person requesting the reconsideration if the commissioner is satisfied that no settlement is possible. AMCTO is concerned that the commissioner is not required to provide this notice prior to the expiry of the time limit for making a complaint.

To reduce liability and provide an acceptable level of customer service, the AMCTO recommends (1) requirement for the assessment commissioner to respond to such a request prior to the end of the appeal period, or (2) provision for an extension to the appeal period for a predetermined number of days after the person receives a response from the assessment commissioner.

1030

The frequent reference to questions of law and the authority of the Assessment Review Board to either rule on, refer or have its decisions appealed to the Divisional

Court on a question of law are confusing and therefore are the basis for the sixth issue we will raise. AMCTO would recommend that these sections be consolidated and that the right to seek leave to appeal to the Divisional Court on questions of law be retained in all circumstances.

We've raised six issues and provided six recommendations to address them. It should be reiterated that the AMCTO's recommendations included in this presentation are aimed at improving the operational aspects of Bill 106. As stated at the outset, in the interest of time we have prepared a fairly lengthy set of issues of detail already raised with the ministry officials and supplied to you today.

It should be emphasized that the AMCTO fully recognizes the need for municipal reform. We believe we have a valuable role to play in this reform process and would welcome that opportunity. Foresight is always better than hindsight.

We look forward to appearing before this committee again as the process continues to unfold. If you wish to hear our views on any aspect of the reform process, we hope you will contact us. We thank you for your attention.

The Chair: That leaves us with about nine minutes. We'll have three-minute question periods, starting with Mr Pouliot.

Mr Pouliot: Thank you, gentlemen. You've indicated to the committee four or five, to say the least, ambiguous or least detailed — in this case, the devil is in the details, I can assure you. This goes to the process of regulations, in which you will not partake. They will not come and ask you for your good thoughts, your guidance and leadership, but you'll carry the guilt, you'll carry the can big time.

Before this, I was for some 10 years involved in municipal and regional politics in northwestern Ontario, and I had the opportunity firsthand on many occasions to value your expertise. In fact, you kept us alive through the expertise of clerks, clerk-administrators and clerk-treasurers.

There are 3.8 million properties, units, that will be reassessed. It's never been done before in North America, and all this has to be done in less than a year from now. It will, by and large, be conducted by amateurs, because they've decimated the staff — we know their intent there — so they're going to the private sector. If you can train H&R Block in a couple of weeks — I mean, these people will excel, just like instant coffee. "You go and assess a property, we'll give you $30," and they'll give $12 to the assessor and pocket $18 for an administration fee; after all, they're in business. It's going to be a mess. Brace yourself for a lot of appeals.

I hope the questions you've raised are answered through some amendments to the proposed legislation. This House, as you are well aware, is not opposed to listening to amendments. We will be presenting some amendments. We're not opposed to doing that. In fact, we're quite practised at it, focusing on the needs of the community.

How do you fear the downloading coming down your throat next year? If I were to ask you 10 questions, do you know how much it's going to cost you? What are members of your association saying? Are you going to be able to pass along a tax break, or is it going to cost you more? What are people saying out there?

Mr Shaw: With respect to our members with regard to the announcements from mega-week? We didn't come specifically prepared to address that particular issue, but I think it's fair to say that we're prepared to implement what the government sets forward, and we need the information to do so and we need the tools and we need ample notice and information to do so.

At this point in time, there's a lot of concern about the cost these will place on municipalities, and there's not been a great deal of information at this point to come up with any accurate figures, although preliminary estimates in many municipalities have caused grave concern.

Mr Tim Hudak (Niagara South): Thank you, gentlemen, for your presentation. Members of the committee, it's good to see Bob Heil here. He's a town crier in our part of the peninsula, and it's good to see him in this century's clothing. You're a good-looking guy after all, when you take the hat off and such.

My question, gentlemen, is that we've heard from some groups previous to you today concerned about the flexibility given to municipalities. In the Niagara Peninsula, with market value assessment, there were a great many complaints. This bill gives more flexibility to municipalities in terms of deferring tax, in terms of working within bands, protection to low-income seniors, and special rates for certain commercial enterprises. Some concerns from previous groups were that it is too much flexibility to municipalities. What are your feelings on these provisions that make it different from, say, the market value assessment that was put into Niagara a couple of years ago?

Mr Shaw: Our association hasn't particularly addressed that point. We've tried to focus on the implementation concerns with regard to this. As I said before, our major concern is that we get the information we require early enough to efficiently administer whatever changes are contained in those. That particular issue is not one we've put our attention to. We will administer whatever's set forward in the act.

Mr Hudak: I just wondered if you'd support that principle, if you've gotten around to addressing those issues.

Mr Bob Heil: The answer would be that the local municipal councils need the autonomy to make the local decisions. Coupled with some of the decisions to transfer and change and some of the issues that will be coming in the future, the local councils do need the autonomy. There are a lot of things in this legislation that we would like to have as quickly as possible in regulation. Our association is well known as a training agency for most of the clerk-treasurers and CAOs in Ontario, and we need that information so we can set up training. Coupled with that, we also have to explain all of this to our new councils, and it's going to be a challenge. But I think the autonomy and the opportunity to have greater autonomy will mean greater acceptance at the local level.

Mr Phillips: On our side, we'd sure like to know what they're talking about, because we haven't seen any of

the — there's more legislation coming that will allow for two or three classes of commercial, but the people who are here supporting the bill like the fact that there's only one class of commercial. We're dealing with a bill where we can only see half of it. Those who want two classes of commercial are being told by the government, "Don't worry, we'll give you that," and to those who don't want it they're saying, "We've got the bill here with only one."

We in the opposition have an enormous sense of frustration right now, because we can't figure out in detail — we can make estimates — what this is all going to mean.

For example, the business occupancy tax, as we look at it, is going to mean dramatic decreases in property taxes for some — normally, in Metropolitan Toronto, which I'm more familiar with, big bank towers — and big increases for small businesses. Has your organization been able to analyse the impact studies from the province so your organization can understand what the impact of this bill will be?

Mr Shaw: We've also indicated that we would very much like to see the regulations to be able to come up with some assessment of that. We anticipate that those regulations will have a big impact upon how we perform our jobs, and we are very clear as to our desire to get those regulations as soon as possible so we have the time necessary to implement what's in front of us. Many of us come from municipalities that have gone through some form of reassessment, and when you do that there's always a shift.

But as far as a comment about whether that's good or not, that's not the role of our association. Our focus is on the implementation of whatever.

1040

Mr Phillips: So you haven't seen any impact studies. Can I ask you a quick question? In your opinion, can this be implemented within the timetable we're on right now? You are the people who will do it.

Mr Shaw: A lot of it comes to getting the information we need. What we're saying is that we're prepared to implement it, like we've implemented many pieces of legislation throughout our careers, and we ask again for the regulations and the rest of the information in order that we have time to do so. If we get them in time, we will do our very best to make sure we do that.

The Chair: Thank you very much. We appreciate the Association of Municipal Clerks and Treasurers of Ontario's presentation today. Given that you will be the ones implementing this, your thoughts are very much appreciated.

BLOOR BATHURST-MADISON BUSINESS IMPROVEMENT AREA

The Chair: We now welcome the Bloor Bathurst-Madison Business Improvement Area, Mr David Vallance. Welcome to the committee. We have 20 minutes together.

Mr David Vallance: Good morning. I come from a business association that went through this in 1991 with the Metro proposal, and what I learned then and what I've learned since has helped me form a lot of opinion on this subject. I really think, like with the megacity bill, that you'd better go back to square one. However, here we go again.

Every few years a government, with the prodding of various interest groups, decides to "fix" the assessment system. How do they propose to fix it? By doing the same thing that caused the problem in the first place.

When it hits the fan a year from now, you are going to wonder what hit you. The assessment office predicts 900,000 appeals. Each of those appeals is going to affect two or more people, and they will all be as mad as hell, because the system you are using has been fully discredited time and again.

In California and Florida, the taxpayers rebelled and replaced the system with what I call a system by default, or acquisition value assessment. Others will no doubt be talking about that, so I won't elaborate.

What I'd like to do is go to first principles, which is to say, "What are you trying to do?" and then talk about ways to do it.

Up until the Harris government, the objective of property taxes was to provide funding for municipalities and schools. I haven't figured out what the Harris government is trying to do yet, because I don't think it knows itself. But assuming that the above objective is the raison d'être for property taxes, the next question should be, what is a reasonable way of allocating the share of the funding required among the residents of the province? The next question is, what is a reasonable way of allocating the share of the funding required among the residents of each municipality?

The first question is necessary because taxes for school funding should really be a broad-based tax that spreads the cost of schooling across the whole province. It isn't, but it should be. I personally have less problem with school taxes than most people, except to the extent that school costs have gotten out of line with reality and need some correction. I'm a cottage owner, so I also have some concerns about that, on which I will comment at the end.

Over the last few years, I've picked up the financial statements for several municipalities within and around Metro. The statement of operations for each lists the income sources, which include taxes, grants, fines, fees and other sources of revenue. The revenue side is an interesting area, but not the one I wish to examine.

On the other side of the ledger are the expenditures. All of the statements include most of the following for both capital and current operations: general government, protection to persons and property, transportation services, environmental services, health services, social and family services, recreation and cultural services, planning and development.

If you examine these items, it will soon become apparent that very little of the money spent has any relationship to either individual properties or individual people. Garbage pickup takes about 5% of the total spent, so even if you could cut garbage pickup and disposal in half, the savings would be 2.5% of the total. Why so much time is spent talking about garbage is beyond me. Some environmental, transportation and planning costs may be allocated to individual properties, but most of the items are already on a user-pay basis. These are water

and sewer charges and hydro, which are provided by the municipality.

Money is spent on general government, police, firefighters, recreation and cultural services and most of the other items, not for the benefit of the individual, but to provide a framework and structure to society that allows us to go about our business in a civilized and reasonably safe way. It allows business and commerce to flourish and, particularly in a big city, it prevents individuals and communities from being devastated at the whim of powerful individuals or organizations.

I suggest that we all benefit more or less equally from the money spent by the municipality. Margaret Thatcher saw the same thing, but her solution did not work. Interestingly, because of the failure of the poll tax and the need to restructure the whole property tax system in Great Britain, the British council tax was created. The British council tax provides some interesting information on the structure of the property tax system.

The property tax system: There appears to be a lack of division between assessment and taxation in the current system. Assessors make valuations based on the use of properties, and different methods are used to assess different classes of property: apartments and single-family, for example. I suggest that assessors should be asked only to assess a property and the local government should be asked to design a tax system for the municipality. Guidelines should be set out to prevent municipalities from competing with each other on the basis of distinctions between property classes. The current classes would probably have to remain and new ones added to develop a proper property tax system.

If elected people are going to make the decisions on how much tax should be charged to each property, then what is the role of the assessors? Actually, their role should be to deliver an unbiased, non-judgemental, totally objective number to the municipality so the tax policy can be properly applied.

The easiest way to get a non-judgemental, completely objective assessment number is to use measurement. It is hard to argue with a measuring tape. Most people who support this system, called unit assessment, want to measure the floor area of the building and perhaps a portion of the land as well. In some ways cubic measure would do a better job, but the difference is not important for this presentation.

This system has been dismissed because of the famous house in Rosedale paying the same taxes as the famous house of the same size in Parkdale, even though one is worth two or three times as much as the other. You can figure out which is which. I suggest the house in Parkdale probably has two or three times as many people living in it as the one in Rosedale, and probably requires two or three times as much expenditure by the city as the one in Rosedale. The one in Parkdale probably generates an income for somebody. As far as I'm concerned, they should both pay the same taxes. The difference in the value between the two is what determines the purchase price. There isn't any time here to develop unit assessment fully.

The British council tax provides some ideas about the tax system as opposed to the assessment system. Simply put, the British council tax puts all residential properties into eight broad bands based on a rough estimate of value. The first band will include all houses up to roughly \$100,000, the next from \$100,001 to \$150,000 and so on up to the top band, which includes everything above, say, \$500,000. Those are not the actual numbers; they're just for illustrative purposes. The assessment follows the principle of being non-judgemental, unbiased and objective by avoiding using an actual number for value.

The tax policy deals with the problem of minor errors in assessment. The tax on the properties in the highest band is only three times as much as that of those in the lowest band. The result is that even if you are slotted into a higher band than you think you should be, the difference in tax is not that much. This also eliminates the need for regular reassessments, and according to some people involved in the system, the tax has wide public acceptance. Incidentally, seasonal homes occupied less than six months a year and those occupied by a single person pay only half the tax.

The same people who said that the British council tax had high acceptance also said that the tax for businesses based on market value assessment was subject to 900,000 appeals out of three million properties at the moment. They are looking at ways to do something the same for business assessment as the British council tax does for residential.

This is a widespread problem. There is a mistaken belief that the assessment problem is confined to Toronto. In fact, it has created havoc across the province. I suggest it is responsible for hollowing out the business core of many small towns and cities all over. The difference is that none of them had the resources to fight back. I believe others will talk about this issue.

Small business owners in different discussions accepted the concept of the same tax for different locations, with the rent being the levelling factor. What they cannot cope with is a tax that is unpredictable, bears no relationship to the services provided and changes due to circumstances beyond their control. In fact, the changes may be the result of their efforts to improve their business. Market value assessment is a killer of self-improvement.

Conclusion: If you haven't sunk the Harris government with megacity, schools, hospitals, downloading, welfare and whatever other things you come up with in the next two years, then just think about the 900,000 appeals, a large portion of which are in your natural constituency. The minister has been given all this information and has chosen to ignore it. I suggest he is a bureaucrat at heart and is providing all his friends in the bureaucracy with lifetime jobs. The minister will likely retire on his three pensions. The losers in all this will be the people of Ontario, who have to pay for a completely flawed assessment, and of course all the Harris government candidates who get thrown out in the next election, because in Ontario we no longer elect governments, we throw them out. The mandate comes only if you get elected for a second term.

The last page is a picture of what this act looks like.

1050

The Chair: Thank you very much. That leaves us about three minutes for each caucus. We'll begin with the government caucus.

Mr Douglas B. Ford (Etobicoke-Humber): Good morning, sir. When I hear all these various views on the taxes, what about a location tax? I'll give you an example: You have a store selling at Bloor and Yonge streets, and you have an equal-sized property in the back street, same square feet and everything else in there. What about a location tax?

Mr Vallance: I think I dealt with that in my submission when I said —

Mr Ford: You mentioned Parkdale and Rosedale.

Mr Vallance: Okay, but the same applies to businesses. In fact, I've had better discussions with business people on this than I have with residential people, although generally speaking I've had pretty good agreement with residential people too, because I'm also chair of a residents' organization that covers the city.

The business tax on different locations I have discussed at a TABIA meeting, which is the Toronto Association of Business Improvement Areas, the umbrella organization for all the BIAs in Toronto. There were about 10, maybe nine, organizations represented at that meeting. The chair of the organization, Alex Lang, who may be presenting, understood this concept very clearly. When people said, "What about my business at Dundas and Keele versus the one in Yorkville?" Alex said: "No problem. Your rent at Yonge and Bloor is $20 a foot and out there it's $5 a foot. That's the difference." They both receive the same services, and in fact the one out at Keele and Dundas may receive more services in terms of police and some other things than the one at Bloor-Yorkville because of the different clientele. So they didn't have a problem with it.

Mr Ford: Which way didn't they have a problem with it, the valuation of the tax or the valuation of volume done in the business in that location? You might have one out at Dundas and Keele doing the same volume as the one in Yorkville.

Mr Vallance: That's fine; that's an operational thing. If the rents are different, that deals with the perceived value of the two different properties. If you can do the volume of business out at Dundas and Keele with the same floor area as Bloor and Yorkville, I suspect Dundas and Keele will show a big improvement, which would certainly help the city.

Mr Ford: Would they have equal taxes?

Mr Vallance: They would have equal taxes, yes. The rents are different. One's $20, one's $5, and that's where they —

Mr Ford: Yes, I realize that, but one might be doing the same amount of business, the total volume of business. Ed Mirvish, for instance, at Markham Street, is a self-developed property. Then you have one over on Yonge Street maybe the same size, but it's doing half the volume or a third of the volume.

Mr Vallance: I give Honest Ed a lot of credit for marketing.

Mr Ford: That's what I'm saying. We give him credit, but —

Mr Vallance: But he pays income taxes on that volume. The property taxes for the city's costs are the same for both businesses if they're the same size, as far as I'm concerned. Business people clearly understand that. I've discussed this with many of them.

Mr Ford: In other words, it's fair that one has more volume, traffic flow and everything else, advertising rights, more than the other person.

Mr Vallance: Absolutely. You pay more for a square foot of space in the Eaton Centre than you do in the Dufferin Mall as a business, and that's what it's all about.

Mr Phillips: Thank you very much. You indicate that there's a concern about appeals, perhaps as many as 900,000. Where did that come from? Is it your judgement or have you talked to some people?

Mr Vallance: I was involved in setting up a province-wide organization to fight market value assessment about a year ago. We've got people in this organization across most of southern Ontario — not every area, but in all areas of southern Ontario. This came as a result of the work involved in that, because we're in constant touch with people at city hall in Toronto who are very interested in this, Peter Tomlinson in particular. I may have heard it from him, I may have heard it from one of the people who is in touch with assessors and so on, but we heard it from an internal source.

Mr Phillips: I think everybody agrees there's a need to change the property tax system in Ontario. That's virtually non-debatable. The issue is really, does this bill work or not? That's what we're concerned about.

Mr Vallance: Exactly.

Mr Phillips: You represent the Bloor Bathurst-Madison Business Improvement Area. One of our concerns is that one of the provisions in the bill is to get rid of the business occupancy tax. You know what that is. In discussions with municipal people, because the municipalities can't afford to give up $1.6 billion of necessary money to cover the services, it appears that it's going to be put right back on the commercial-industrial sector. It appears from the numbers we've done, and incidentally from the Canadian Federation of Independent Business, that it's going to disproportionately hit small business. Has your organization had a chance to look at that and do you have any advice for us on that?

Mr Vallance: No to the question, have we had a chance to look at it; not as an organization. Most small business operators are not terribly sophisticated and don't have time to look at the papers and follow what's going on, so they don't know this is happening. I'm aware of what you're talking about and it is of considerable concern both from the residential side and from the small business sector. I don't know if you're aware of it, but Commerce Court was worth $1.2 billion in 1988 and now it's worth $300 million or $400 million, according to an expert. Can you knock two thirds of their $39 million in business and property taxes off that for the city of Toronto and expect somebody else to pick it up? I don't think so. So you're going to have legislated taxes here.

What I see happening is the same thing that is so typical of what has happened in the last couple of years: The government's been rushing into things without doing any preparatory work in terms of discussion with the people involved who know intimately what's going on.

There's another aspect of this act which involves BIAs. That has big implications for property owners and business operators, but nobody has thought about it at the government. This type of thing wouldn't happen if there

were a proposal, discussion, redrawing, proposal, discussion, and then bringing forward an act that's got some sense to it. With this rushing things out and then dealing with it, there's no time to do it right; there's all sorts of time to do it over, and that's what's going to happen here. A year from now, I guarantee that those 900,000 people across Ontario are going to raise such a ruckus, this government's going to say, "We'll fiddle with this for the next five years to try and get it right."

It's not working in British Columbia, by the way. The city of Vancouver is trying to get off as much of their value-based assessment taxes as they possibly can. They're going to user-pay, they're going to parcel taxes and other forms of flat taxes that level out these ups and downs. Since 1989 they have had an adjustment to their taxes in Vancouver for either the business or the residential, or both, in every single year. That's no way to deal with a tax system. There are other and better ways of handling it.

Mr Pouliot: Good morning and welcome, sir. I'm intrigued by some comments on page 4 of your presentation: "The minister will likely retire on his three pensions." This is not the kind of comment, with respect, that I would have expected as we focus on the intricacies and the pros and cons of the bill, but since you've mentioned that, which three pensions are those?

Mr Vallance: He's getting one from the Urban Development Transportation Commission, I understand, and he's getting a supplementary pension from the TTC, and I expect there will be a sinecure from his four years here or whatever it turns out to be.

Mr Pouliot: Very small, because Mike Harris did cut the gold-plated pension he used to refer to.

Mr Vallance: Well, there are other ways of dealing with those issues.

Mr Pouliot: I was intrigued, and this is the focus of my question, by the Rosedale and Parkdale analogy. With respect, unless you tell me more, I'm not comfortable with its validity. I come from the premise that one way to judge a person's wealth is by the property they occupy. It's not foolproof, I agree, because it's a matter of choice of lifestyle etc. Income is one, of course, and that's more obvious perhaps.

For instance, most people I associate with, the great majority — because you court what you are and you attract that manner of humanity; those are the milieu — we can hardly afford to take a cab to go through Rosedale, never mind live there. Parkdale we're more comfortable with, and we're even more comfortable when we know that the people in Rosedale, to whom we wish very well, are paying more property taxes — or are they? — than we in Parkdale. They can afford to pay more because the unit, the mansion — they're not all mansions, but the unit — is worth more money. Doesn't that make sense? For instance, if I were to go and buy a car, if I buy a more expensive car than the GM product I drive, of course I would pay more taxes. If I buy a higher property, should I not pay more taxes?

1100

Mr Vallance: I guess it depends what you're talking about. When you buy the car, you pay more taxes in the form of GST and PST and whatever other taxes the province wants to attach to the purchase of a car. However, once you get that car, the chances are that if you go in to get it serviced, the hourly rate for fixing your car is the same as for the guy who drives in with a five-year-old used car. When you go in to buy fuel or gasoline or whatever you use in your car, the attendant doesn't come out and say, "You've got an expensive car; I'm going to charge you an extra 10 cents a gallon."

The city is providing services, and as I said before, the services we receive are generally not for us as individuals. The police don't protect you as an individual; the police provide an umbrella in society for us to live comfortably. Individual protection is non-existent, so you can't pay a user fee for that. You allocate it on the basis that we're all benefiting from the fact that we have a safe environment to live in and therefore we're buying gas, as it were, and we should pay the same price per litre as the guy next to us.

The Chair: Mr Vallance, thank you very much for coming in and taking the time to present today. We appreciate your input.

NORM GURR

The Chair: We now welcome Councillor Norman Gurr from Southampton. Welcome to the committee, Mr Gurr. I trust you had a safe drive down this morning.

Mr Norm Gurr: I actually came down and stayed at a hotel here. I hope you all know where Southampton is. It's the best-kept secret in Ontario. I was a school principal in Toronto. I retired up there 10 years ago and then went on to the council up there, but I do speak as an individual and not for the council.

What I am giving you today is some statistical information as to what happened when Bruce county was reassessed at 1988 values in 1994. What I really want to show you on this is that everybody knows what a property is worth except the assessor. If you have a copy of the list here, it shows on the left-hand side what they thought the property was worth when they sold it or what the real estate people thought it was worth, the next line over shows what it sold for, and the column on the right shows what it is actually assessed at. You will see that there is very little relationship, if you go all the way down there, between what the house sold for and what it is assessed at, in spite of the fact that the assessors had all of this information at the time they did the assessment. These are sales figures that are around the 1988, 1989, 1990 time span, and I believe it came in in 1994.

What I do point out is that the Charter of Rights and Freedoms says that we are all to be treated equally under the law. This has certainly not been happening in the past, and I suggest that what you propose will also not happen. I don't think it's possible to assess the value of a house accurately. You can see the figures, and they're all over the place.

If you look down the list there, it's obvious that there are a lot of inequities. For example, I've outlined the first one there on the first page. It sold for $74,000 but was assessed at $104,000. If you go down further, you'll see that 262 Lake Street sold for $130,000 but is assessed at $53,000. I have circled four houses that sold for identical

prices: $100,000. One is assessed at $69,000, one at $78,000, one at $91,000 and another at $111,000. If you go all the way through all these pages, you'll see on the last page there's one there at 60 Morpeth that sold for $270,000 and is assessed at $119,000. The last sale on the list shows 2 Beach Road, which sold for $290,000 and is assessed at $105,000. That's what's happening out there.

A summation of the figures shows that one house was assessed at between 30% and 40% of its selling price and six houses were assessed at between 40% and 50% of their selling price. You can read the rest of it in your own time, but you can see that there were very few of them that were assessed at what they actually sold for.

I think it's obvious when you look at this that there's a great, wide discrepancy in what's happening out there, and this is just the tip of the iceberg, because these are only the houses that sold. He could have corrected these, but he didn't. Every house in Southampton, in fact all of Bruce county, is probably out of sync in this particular way.

I think there are a number of reasons why this is happening. Unlike income tax or sales tax, which is clear and has its rules, the criteria for property assessment are vague at best. The assessors admit there is a great amount of estimation in what they do. They're frustrated just as much as the people out there about what's happening with all these reassessments and appeals and things going on. They are given a wide discrepancy in how they assess. They can't give you an explanation in regard to how they arrive at a figure. They admit that it is largely a guess. They can't say, for example, that it is so many square feet at a certain figure.

They say to appellants, "If you are unhappy, find other properties with which to compare it." But what happens if they're all wrong in this area, as these figures indicate? What happens when you're paying taxes on properties that are less than market value? The other problem with that particular thing is, if they say to you, "Go and look at another house," you can't walk into a neighbour's house and say, "Can I have a look at your house?" You're helpless when you go to an appeal up there.

The criteria that the assessor have to use, especially the age of the house, create a large part of the problem. That's the problem here. You look at ages, but it depends on a lot of other things besides the age of the house. Older houses can be redecorated and renewed without a need for a building permit, and in rural areas often building permits are not applied for by those who upgrade. They just simply go ahead and do it up there, as you'll find out if you go and live up there. Older houses often receive higher prices because of their charm and the interest in houses of historical significance.

In cities and new subdivisions, many houses are alike and can be compared, but in Southampton I don't think you'll find two houses that are alike. You'll find little cottages and you'll find houses that have maybe 4,000 or 5,000 square feet with all the luxuries. I don't know how you compare them.

Assessors tend to group properties. For example, properties along the shoreline are assessed at the same land value. However, one could be on a sand beach and the other could have no beach at all, be rocks or cliffs or whatever. Yet they're all assessed the same.

The assessors have far too many properties. I think that's the big issue. I was told there are 70,000 properties the assessors have to do up there and they haven't probably done 5% of them ever. They don't go back into these farm countries. They don't have a look at the properties. It's impossible. You don't have the staff. If you've only got four or five assessors, how do you do 70,000 properties? So they are giving you an assessment on something they don't even know anything about.

In addition, I point out this: I've attached for you an Ontario Municipal Board hearing. It was interesting. They found themselves in a real jackpot. It was an appeal that was denied at the hearing and the Woods, who made the appeal, went to the OMB. At that time the assessor finally had a look at the property. The land value itself was assessed far too high; they admitted it was 133% too high. But what they did was, instead of lowering the land value, they lowered the area of the lot. I've pointed out here that I think it was 150 feet wide and 300 feet long approximately; I forget the exact figures. They actually reduced the size of the lot, and therefore every other property in that particular area is assessed too high because they're in such a problem up there in trying to solve all of these problems.

Most properties, as the figures show, are assessed below the selling price: 108 of the 137 houses on the list are assessed below what they sold for. So people tend to accept that and they don't appeal it. What they don't realize is that some people are assessed a lot less than they are.

Again I reiterate, the criteria that the assessors use are one of the best-kept secrets in the world. They refuse to give ratepayers a copy of how they do it or how they arrive at the figures. As I said, most people don't even realize that their assessment is incorrect.

The assessor can enter any property, as I said, but it's impossible for anybody else to get into a neighbouring property, and people just don't understand the assessment, how it's determined. Many are afraid to appeal or lack the ability. It's a difficult thing for people to appeal under these particular circumstances. They tend not to do so.

I request the following if you intend to proceed with this, and I don't think you'll ever be able to do it under these particular criteria you're using:

That the criteria, especially removing the age factor of the house, be changed to reflect a truer estimation of the value of the house.

That the rules be clear and simple and the criteria be easily measurable for the property owner, just as they are for income tax.

That a detailed copy of the rules and criteria that the assessor uses in assessing properties be made readily available to the public. They should perhaps be included in the assessment notices.

That each assessment notice indicate both the land value and the building value, that the figures the assessor uses to determine the value of any property be made readily available to any ratepayer who inquires, and that these be readily and easily measurable and understood.

That all assessed values be at the actual value of the house without any kind of reductions. You should be able to look at a property and say, "I agree that's worth $100,000." The neighbours should be able to say that.

That the assessed figure the assessor applies should be a reasonable amount. People should be able to say that the assessment amount is equal to a reasonable price for any property, and when a property is sold, the assessed value will become automatically the actual sales price. In other words, if a place sells at $100,000, that's what you assess it at.

That all properties in the county be visually assessed by the assessor before this is applied. As I said, it's never been done.

1110

The problem with actual value assessment is it does not reflect the land owner's income and thus the ability to pay. People's circumstances change. They may lose a good paying job or they may be widowed, and property values in certain areas can increase dramatically. People are forced to sell their houses in Southampton because of the taxes. It seems to me that the property taxes should reflect the people's income that they have.

Or perhaps the government should change its mind and remove all the proposed increased welfare and medical-related costs from property taxes, since these do not have any relationship to the services a municipality provides. They are income redistribution related, and I point out that probably over half of the welfare and medical costs that you are transferring on to Southampton — over half of it will be those costs.

There are a few other issues, I guess. You're going to put on to Southampton the farm rebate. If a senior finds a tax increase, he can postpone it. Unfortunately, over half our people are seniors, so a lot of people could be deferring taxes. I don't know who picks up the rest of it. You've taken the commercial off. You've removed $1.5 million in transfer payments to Southampton from a $4-million budget already and then they're transferring, as I said, all the welfare on, and then you're threatening amalgamation.

I don't know why it is that governments, when they get elected, try to commit suicide. We had Liberals up there before, Gerry. That was Murray's boondock and they put the Conservatives in this time, and Barbara's doing a great job, but I think you do things to try to commit suicide. However, I'll leave it at that. Thank you very much.

The Chair: Thank you very much, Mr Gurr. That leaves us with about three minutes per caucus for questions.

Mr Phillips: Thank you for taking the time. You've given us a lot to think about here. There are two areas I wouldn't mind focusing on. One is, you mentioned that over half of your property owners are seniors. I think you said that. We heard yesterday that those who may be impacted by it can essentially defer their taxes. The best way to think of it is like a reverse mortgage, so I gather the intent is that municipalities might go to a financial institution and say: "We've got a hundred property taxpayers who can't pay. They own their building. Will you set up a reverse mortgage and pay us? Then when the property is finally sold for whatever reason, you'll get your money back."

Has your council had a chance to discuss that kind of proposal and take any position on it?

Mr Gurr: Unfortunately, our council has been absolutely inundated with all the changes that are coming. We're totally confused about what's happening up there right now, so we really have not had an opportunity to discuss any of this. All I know is that we have had tax arrears, something like 15%, and our accountant came forward and said, "You have to raise taxes and increase your reserves." So we've been trying to get rid of the tax arrears. Basically what you're saying with this is there's going to be a legal way to have tax arrears. That's the problem with it all. But no, we haven't taken a stand. We're just inundated up there, as all councils are.

Mr Phillips: You mention in your brief the change — we call it dumping, but downloading, whatever is a non-controversial way of saying it, the moving of some of the soft services such as seniors' care, seniors' housing and child social assistance on to property tax. We believe it's a substantial added cost to you. Has your council had a chance to assess how all that nets out? There are some councils, I gather, that think they may get a break. Do you see yourselves getting a substantial break because of that?

Mr Gurr: The figures that I have had a look at mean a 50% tax increase for Southampton.

Mr Phillips: Fifty per cent?

Mr Gurr: At least 50%; that's the minimum. That's the figures that I have looked at myself. It's hard to know because everything is so vague right now. We don't know where everybody is going, but that's the difficulty with it right now.

Mr Phillips: Fifty per cent. That's incredible.

Mr Pouliot: Mr Gurr, good morning. In your presentation, your page 2, a summation of the figures shows that you have a variance of assessment. Is this in the same vicinity? Is it using the same mill rate?

Mr Gurr: Basically it has nothing to do with mill rate. It's what properties are assessed at. The assessment is out by that amount is what I'm saying. The mill rate is the same for everybody, of course.

Mr Pouliot: Please bear with me, sir. The reason I'm asking if it's in the same vicinity or if it's — you see, the mill rate is often a governing factor. I live 800 miles, our riding is 1,000 miles, some of them are assessed at one third their property value — it's a small village — others are assessed at full property value and they both pay the same tax. They are 150 miles apart and so on. This was my focus. That was the reason, because if we're to compare, we're to compare within the same vicinity the assessment of one unit vis-à-vis the other. It's a very simple definition of assessment but it's no less valid than others.

You've mentioned the new responsibilities that you are about to take on: Are you running again, Mr Gurr?

Mr Gurr: No. I've had nine years and I think it's time for me to leave.

Mr Pouliot: How long were you in the school endeavour, educating others?

Mr Gurr: For 28 years. I'm 66 years of age.

Mr Pouliot: Your courage is great, and you escaped just before the revolution bulldozes even our sacred education system.

Mr Gurr: I escaped 10 years ago under an open window that they're offering again right now, actually.

Mr Pouliot: Why not do it all in four years, because you're not coming back? I want to wish you well. A 50% tax increase — if I were to ask you less than nine months before your fiscal year, which starts in January, what is the cost of ambulance, what is the cost of policing, senior housing, social assistance, highway transfers to you as a citizen of Southampton, as a taxpayer?

Mr Gurr: I don't have those figures with me right now, but in looking at the figures we've had and then discussing it with our town clerk and the people who do know, you're looking at probably 50% if not more, because we don't know what's happening out there. We don't have a clue.

Mr Pouliot: So if a person is on social assistance and has multiple sclerosis, you'll pick up 50% of the drug costs. Do you know how much it costs from the formulary?

Mr Gurr: I don't have those figures for each one.

Mr Pouliot: You've never been exposed to those things, right?

Mr Gurr: All we can do is sort of speculate on what figures we have.

Mr Pouliot: So you would expect that with that train coming down less than nine months from now, as a citizen I would have the right to ask you a question and expect an educated answer. Wow, what a mess we're in. Thank you, Mr Gurr.

Ms Bassett: Thank you very much for your presentation. There are a couple of things I just wanted to pick up on in terms of the assessment. You mentioned you've been there 28 years. Obviously you've seen many changes.

Mr Gurr: I haven't been there — I was a school principal here in Toronto for 28 years and then I retired. I've been up there 10 years and I've been on council nine years. They saw fit to elect an outsider and they've been sorry ever since, I think.

Ms Bassett: The point I want to make is that we believe that our new assessment system is going to be very fair and we have the advantage of having very up-to-date, modern technology. As you know, even in two years, or one year, technology advances light-years ahead and new technology that we're using has been used in BC with very good results. In fact, a story in the Star in April showed that their appeal rate has been less than 2%.

We're able to quickly and accurately establish the assessed value of ascribing market-driven values to the different characteristics of property. We feel that this will allow us to be very fair within some of the things that you've mentioned should be looked at. We feel that we are addressing those problems. You mentioned the house that has a beach or the house that has rocks. Well, market value or actual value, if you want to pay more for a house on rocks, it's going to be —

Mr Gurr: It's not what you pay. They have it assessed incorrectly, and I guess part of the problem is, and I refer to Gilles over here, that a lot of people who live along the beach are retired people and their husbands have died, or other circumstances, and they don't have the money to pay those kinds of taxes.

The other problem with that is that being a cottage town, we haven't had any new cottages built since the 1988 assessment, so it's terribly hard on our economy in both the construction industry and on our main street.

Ms Bassett: If I could just intervene to say, to allay the fears of people on fixed incomes, that will be up to the municipality, which will have it in their power to defer taxes if they wish or to allow an eight-year phase-in period. There are several areas to cushion the shock if taxes were to increase.

The Chair: Thank you very much, Mr Gurr, for taking the time and travelling the distance to come and present to us.

Mr Gurr: It's always good to come back to the city.

The Chair: The Chair does know where Southampton is. I've visited it many times.

1120

BOARD OF TRADE OF METROPOLITAN TORONTO

The Chair: We now welcome to the committee the Board of Trade of Metropolitan Toronto. If you would introduce your associate.

Mr John Bech-Hansen: I'm John Bech-Hansen; I'm the staff economist with the Metro board of trade. This is Gord Van Russel, who's a member of our taxation committee.

I'd like to congratulate the government for proceeding to modernize the assessment system, which is something no other government has had the courage to do since the province took over that function in 1970. I think the government is to be commended for following up on many of the sound recommendations they got from the Who Does What panel and the GTA task force. I've outlined some of those in the paper there.

The fact that we're adhering to a value-based system rather than considering a regressive policy such as unit assessment, a common base across the province, annual reassessments, three-year averaging, variable mill rates with some controls over how that's going to be applied, eliminating business tax and streamlining the appeals process — these are all excellent and long-overdue changes in the assessment system.

We have some proposals for improving and strengthening the legislation. First of all, we think there may be a little bit too much discretion given at the municipal level on how the system should work rather than having it be what it really should be and must be, which is a uniform system province-wide. It's extremely important to recognize that a common assessment policy is as important to the efficient functioning of a province's local governments as a common currency is to the efficient functioning of the economy of a country.

We kind of think that the whole point of reassessment will be defeated if various local options are put in place that are going to let municipalities set up a whole series of artificial dams and levies to lock in current inequities and cross-subsidies between property classes.

We have just a bit of a concern about current value and how that's defined. The point has been made many times that the basic definition of "current value" as "arm's length sales transactions" doesn't really capture the intent of the Who Does What panel, which was trying to see what could be done to eliminate the speculative component in property assessments. They wanted to see properties valued at their value in current use; in other words, perhaps by capitalizing rental income.

The proposed legislation allows for the minister to make regulations for an alternative definition of "current value": "value in current use." Again, it's making this something that is up to municipal discretion. We don't think that's appropriate because one of the critical underpinnings of a fair assessment system is that it be uniformly applied across the province. Without a common assessment base, there are just going to be too many opportunities created for discriminatory practices just as severe as the ones we have already.

Our recommendation is that there have to be realistic current-use principles applied uniformly across Ontario, particularly in the commercial-industrial classes. We don't think it's appropriate to prescribe how this actually gets done in legislation. But whatever needs to be done to amend the legislation to try to get rid of the effect of speculation would be helpful.

There is mention in the legislation of the possibility of additional business property classes being created, and I suspect that will be another piece of legislation. We've given a few points there on why this would probably not be a good idea. We recommend that the legislation be amended to eliminate references to the potential establishment of additional property classes or at least to specifically prohibit a local municipal option in the use of those classes.

I know one of the concerns of David Crombie was that you might need to have a subclass of the commercial class for small retail so that it wouldn't get harmed by the new assessments coming in, although he indicated to me that he didn't really feel it was necessary, perhaps, to have a subclass if we assessed all commercial property based on value in current use. Then you might not need to create additional classes.

Phase-in provisions: We're just concerned here and we want to make sure there isn't a repeat of what happened with Metro's attempt to bring in MVA where they had differential phasing in of tax increases and decreases, all basically aimed at cushioning the residential class, and they would have very severely penalized the business class of taxpayer.

On the subject of variable mill rates, of course, that's the most significant change in the whole assessment legislation. Variable mill rates is something we've accepted for a long time as the only politically acceptable way you can modernize the assessment system across all classes. It's going to bring substantial new powers on municipal councils, and we think that's good. It'll force municipalities to make their decisions about who pays what very explicit in the mill rate, and that transparency in the mill rate is going to encourage some desirable tax competition between municipalities.

We also think it's very appropriate that the legislation is designed so that municipalities which have tax ratios outside the allowable range will only be allowed to move them towards the allowable range. I think that is a very appropriate development.

We have a proposal there on allowable ranges for mill rates. The allowable ranges, of course, haven't been defined yet. With the initial starting point for the transition to whatever the allowable ranges are, we can accept the idea that the transition ratio the government sets will allow each municipality to keep the class tax burden the same, but we think that over time there has to be some levelling out of the inequities in the distribution of the tax burden between property classes. In other words, when these allowable ranges are established, it should be a requirement that over a reasonable period of time all municipalities bring effective tax rates within those allowable ranges. We have a proposal there on how that allowable range might work which I won't describe.

My final point is the business occupancy tax. That's just been in the news in the last day or two. All we can do is really reiterate the concerns that others have expressed: It's a completely outdated tax; it doesn't serve any real, functional purpose any more; the rate structure is inequitable; the assessments were time-consuming to determine; and it was a collection problem for municipalities. We just expect that municipalities will probably opt to fold that business occupancy tax into the non-residential tax and make it an obligation of the landlord; it's just that the legislation has to make sure there is some provision to intervene between landlords and tenants regarding the pass-through of any realty tax increases caused by the elimination of that tax.

I guess that's it, so we'll take questions now.

Mr Pouliot: Thank you for another, however predictable, excellent and consistent presentation. The government expected no less but your full support of its legislation. Some previous presenters have mentioned the possibility of up to 900,000 appeals by virtue of what is being contemplated. For instance, you have 3.8 million units being assessed and reassessed and this has to be done in less than a year, by April 1998. It's been contracted out and assessors are being trained with as little as one day, for instance, and they'll be working at approximately $12 an hour and they'll be overloaded.

Do you fear, because you talked about uniformity, you talked about things being streamlined, well done, businesslike, that it could become a bit of a nightmare and that the end product will not be what was intended?

Mr Bech-Hansen: I think in the transition to any new assessment system you're going to have a massive number of appeals anyway, but that's no excuse not to go ahead and make the necessary changes.

I've had some discussions with other people who are experts in the field, like John Bossons. I tend to agree with him a little bit that perhaps some of the impacts of the transition to the new system, maybe to reduce the number of appeals, would be to change the phase-in provisions so that perhaps the tax increases could be back-end-loaded; in other words, put on towards the end of the eight-year cycle. That might ease the impact to some degree and reduce the number of appeals.

Mr Pouliot: The point is well taken. By way of supplementary, the dreaded business occupancy tax will find its natural way, will no longer be there. You are aware that the larger you are — for instance, the bank towers will have a substantial decrease in their taxes. I don't wish to malign them further, because I know that sector has been much maligned, and I think not always rightly, but they're an easy target so I have to mention them. They're in my prayer book.

1130

The apartment and hotel owners: What concerns me with this is that as you remove the educational portion and leave the general purpose at the residential level, but you don't remove — should there be any dislocation, any overburden, it will be picked up at the residential level through general purpose, in lieu of education-plus. But the small business community will still be burdened with the education levy, and also they'll pick up the slack from the residential as well, so reassessment or no reassessment, the mill rate, the need to generate money will be the deciding factor. I don't think we have to worry, because it's been decreed by the government of the day that municipalities should be able to pass a 10% saving at the property tax level, but when we try to get the figures it's more difficult to cost and therefore justify it. Are you hopeful that your constituency will see a decrease in taxes by virtue of this and other pieces of legislation?

Mr Bech-Hansen: Looking at the assessment system by itself, we don't really see that as necessarily leading to net tax increases or decreases overall. It's just to simply get the level playing field, and as I've been saying many times before, the tax assessment system is the fundamental bedrock upon which all the other changes depend. Some of those changes, as you know, we don't particularly like the way the government has structured the downloading proposals, but we're hopeful that some of that can change, because none of it is in legislation. We're also hopeful that the changes in how commercial and industrial will be paying for education will also contribute to reduced taxes in Metro Toronto, but that is for another time and place.

Mr Ford: Good morning again. Gentlemen, we were just discussing with previous people here, talking about timing and location. We're also talking about a house in Rexdale being the same size as one in Parkdale and being equally taxed. We're also talking about 1902 bylaws still on the books and 1942 assessments still on the books. This is what we're talking about when we're saying equalization of taxes, everybody paying their fair share. That's this government's point, and there are approximately 180,000 of these bylaws still on the books of the overall Metro situation.

I had a discussion with you the other day. We discussed this, and I thought we discussed it quite thoroughly. I would like to get some of your opinions on some of the things I've just mentioned.

Timing and location: I mentioned that there's probably a business property at Bloor and Yonge Street and one opposite, in the back streets, being equally the same size. Should they be assessed at that? The other gentleman told me that one is assessed probably at $20 a square foot, being there, and one out in the boondocks somewhere is being assessed at $2. But I would like to say this: What if the property on Bloor Street was leased for 20 years and, when we had a little bit of a recession there, $2 or $4, because the rent has dropped by 75% and he got a 20- or 30-year lease on it, and the one out in the other place is talking $6 or $10 a square foot? What is your opinion on these things?

Mr Bech-Hansen: The structure of leases, of course, very much affects what people are going to pay. You have raised the issue of taxes per square foot, which I know is one way of looking at how taxes should be assessed. This is called unit assessment, and I know some ratepayer groups in Toronto are very fond of the idea of having unit assessment.

I actually have a little supplementary background paper here that I've used before to talk about the pros and cons of unit assessment, which I don't really think we need to get into here. I think it's generally accepted by the academic community, as it looks at all the different ways that you can assess property, that the fairest way and the one that has at least some relative measure of relationship to ability to pay or income is a tax system that's based on value and that it's not relevant to really just look at area measures.

One thing too against unit assessment is that while you might have residential houses assessed at the same amount per square foot, I don't think anybody wants to say that we want to have the same square-foot tax on a downtown bank tower as on a small retail strip in the suburbs. You would end up having to do that if you have a unit assessment system in commercial-industrial, which is why it's more appropriate to relate it to the value of the building.

Mr Ford: What about timing when you have an assessment? What should the limitations be on timing of assessing properties? Because there are fluctuations in time, business, economics and everything else — cyclical. Put it that way.

Mr Bech-Hansen: The provision that there is three-year averaging of assessments is very appropriate, and I know that was used in BC, in Vancouver specifically, to deal with the large fluctuations they had there. But the thing that a lot of people overlook with value-based systems is that they think if there's a collapse in value there's a collapse in taxes, and if there's a zoom in values taxes go with it. The value-based system is just a way of apportioning costs between different taxpayers. Generally speaking, when you have a boom in the economy, all classes of property are going up in value somewhat similarly so the tax burdens don't really shift that much between them, and the same in a collapse.

Where you do get tax shifts is if you have a very much larger increase in residential property values than you do in the commercial class, like they had in Vancouver. In Vancouver what they did to respond to that was they kept cranking up the commercial mill rate to keep the class tax burden the same. But my understanding of this legislation is that's not going to happen, because if you're outside of the allowable range you can only move the ratio closer together, not further apart. That's appropriate.

Mr Phillips: Thank you. A couple of questions: One is the business occupancy tax, just because as I always say, everybody's in favour of property tax reform. The question is, does this bill work or not? As we look at it and try to take some examples in Metropolitan Toronto, I think you've concluded the same thing we have, and that is, virtually every municipality will add the business occupancy tax revenue loss back on to commercial-industrial. You recommend, as every other business group has recommended — CFIB, the property tax people — that they're not permitted to have other classes of commercial, so you're at the one class.

As we look at it, there will be some significant winners and some significant losers when this happens, as you take the $1.6 billion off business occupancy and put it back on. Obviously those who are paying the 75% or 60% business occupancy tax will be the big winners. Our conclusion would be, a thing like a bank tower — and I use a bank tower just because it's the one that's definable — could be looking at a $3-million to $5-million decrease in taxes and small businesses that are at the 30% range could be looking at probably at least a 10% increase in property taxes. Would you agree with those numbers? Is that the order of magnitude we should be thinking of?

Mr Bech-Hansen: I think you may be about in the right ball park, but anything to do with tax shifts and the creation of winners and losers is — generally speaking, as somebody who's been a winner under the business tax since 1904, perhaps it's about time they did start to lose a little ground to those who have been losing since 1904, and if that happens to be the banks, so be it. But that same high business tax category includes brewers and distillers, so Upper Canada Brewing is presumably getting hit, which is a fairly small type of business. A great majority of businesses which actually operate in the downtown office towers are in the 50% business tax class, which is the implicit, neutral rate that you would have if you just abolished it and folded it into the realty tax, so it's really not a shift for a lot of the actual tenants of these towers.

Mr Phillips: The thing you don't mention here is perhaps the most important thing, and that is what happens to the education property tax. The reason I say that is that over half of your board of trade business property tax goes to education. It is our assumption, because we can't find out from the government, that this amount of money will still be raised off business property tax. You run the risk that it's locked in in perpetuity; 55% of your taxes are locked in there. As I say, I was surprised it wasn't in here. There'll probably be some escalator built into that.

Then you recommend that the ratios be reduced from what I gather right now is three to one — three for business to one for residential — to two to one, a reduction of one third of the tax rate, essentially. When you do those two things, you leave education funded off business property tax, 55% of it. You reduce the rate and you leave virtually nothing for the municipalities for their — I shouldn't say virtually nothing. Probably about 10% of current total business property tax would be left for municipalities because you've left the 55% for education and you've reduced the rate from three to one to two to one. Have you done any calculation on what that would do to the revenue of the municipalities in Metropolitan Toronto?

1140

Mr Bech-Hansen: We didn't mention the interplay between these other things in the presentation because that's tax policy, not assessment policy. There's a very, very complicated interplay between how all this is going to work, and it isn't absolutely clear to me exactly how the setting of whatever commercial tax rates will be is going to affect what the tax ratios are that have to apply.

I just presume that if we have a transition ratio that has to be three to one in the city of Toronto to reflect the status quo right now, when all is said and done with the commercial tax changes for education and so forth, the transition ratio will still be intended to be three to one, even though that might mean an overall increase in taxes in Metro, which we expect, of $500 million.

The Chair: Thank you very much. We appreciate the Board of Trade of Metropolitan Toronto coming in and taking the time and making your presentation this morning.

ASSESSMENT REFORM WORKING GROUP

The Chair: We now welcome Michael Walker, councillor, ward 16, the city of Toronto. I understand that you'll be sharing your time with the Assessment Reform Working Group as well.

Mr Michael Walker: Yes, I am: George Milbrandt, Audrey Birt from our city finance department, revenue section, and Dr Peter Tomlinson, who is a special adviser on tax matters with the city of Toronto.

The Chair: Thank you very much. We have 20 minutes, if you'd like to proceed.

Mr Walker: I refer to it as Madam Chair. Excuse me, it's Mr Chair.

The Chair: That's happened twice.

Mr Walker: I've just introduced you to George Milbrandt. He's a colleague of mine on the Assessment Reform Working Group. I've chaired the Assessment Reform Working Group for almost a decade and have long admired the dedication our volunteer citizens have brought to the property tax reform agenda. The membership on it has nearly been consistent over that 10-year period.

There are two key points I would like to focus on this morning. The first is that Bill 106 implements market value assessment, period. That's what it does. It takes out existing local option on assessment updates and imposes market value assessment province-wide rather than Metro-wide.

True, MVA has a new alias in Bill 106 and it's called "current value assessment." Market value assessment goes through aliases faster than Elizabeth Taylor goes through husbands. It has gone from market value assessment to actual value assessment to current value assessment in just over one year.

But behind these names are definitions and they have not changed. You have to follow the paper trail to know what is really going on. If you turn to page 14 of the formal city submission, which is this one, the thicker one of the three that you've received, you will see the

definitions of market value assessment and current value assessment side by side, and the differences are minor and technical.

Essentially, the Ontario assessment staff have used this opportunity to clarify long-standing practices but otherwise have left things unchanged. Last week, there was a conference on Bill 106 at Osgoode Hall and the experts looked at these definitions. Without exception, they said Bill 106 is market value assessment. You can't find an expert anywhere in Toronto, in or out of government, who will contradict that. At Osgoode Hall, you had lawyers, appraisers and members of the Who Does What advisory panel all agreeing that market value equals current value.

Let me just quote from one expert here: Jeffrey Cowan of Weir and Foulds. In his paper at Osgoode Hall, Mr Cowan said, "The definition of 'current value' is very similar to market value." He added that the notion of "unencumbered fee simple," which you see in the definition of "current value" is "essentially the position taken by the regional assessment commissioners in their interpretation of market value under the existing act."

What the experts are saying is clear. It would make much more sense to just leave the words "market value" in the act. Then taxpayers would understand more clearly what they are dealing with.

This brings me to my second point. Why is market value assessment being disguised? Because one of the two ministers responsible for this bill made a solemn commitment in June 1995, and he said his party would never impose market value assessment on Toronto. This is a commitment that cannot be escaped with an alias. This flyer went around to all the homes in his riding.

Let me be clear on this point. This is not an issue on which the minister's platform was silent. Nor is it an issue of something he said he would do, then did not do. That type of commitment might still be met later on. What we have here is a clear and precise commitment not to impose market value assessment and that is what the minister is doing with this bill.

Members of the committee, the government has no mandate to implement this bill. To impose market value assessment it would have to run on a platform promising market value assessment. I don't believe the government would do that, but if it really wants MVA province-wide, that is what it must do.

I believe Ontario taxpayers want an assessment system other than market value assessment. Two thirds of Ontario's population live in communities that have not kept market value up to date under the local option system, and that is an indication of how Ontario taxpayers feel about market value assessment.

The city of Barrie just recently opted out of a reassessment from 1984. Guess why? They didn't want to go through the agony of another dislocation and the trauma that the 1984 reassessment imposed.

If you read our material, you'll learn how other countries and states have developed alternatives to market value assessment, alternatives that work and that taxpayers see as equitable. Neither Anne Golden nor David Crombie was given enough time to examine these alternatives in depth.

Given that the Ontario government has to wait for a new mandate anyway, it might as well give us the in-depth look at alternatives we haven't had to date. Once that happens, the government might learn that its original instincts were correct.

Market value assessment is a malignant tax system with fatal consequences for its authors; 78% of taxpayers in the city of Toronto formally rejected market value assessment in a legal referendum in 1991 and would reject this if given the choice. Al Leach knows that. That's why he made this promise. That's why Isabel Bassett made a similar promise. That's why other MPPs made a similar promise. Al Leach was right in June 1995 to promise that to the taxpayers. The committee should urge him to reaffirm his promise to those same taxpayers. To do otherwise is just plain crazy, in my opinion.

1150

Mr George Milbrandt: I'd like to spend a couple of minutes talking about two other aspects of the present bill. One of the considerations is inaccurate assessments. I believe they will result from the present time period allocated for assessments. Four million properties have to be reassessed. The process has already started. A member of the ministry staff said the ministry could not perform the assessments adequately in the period of time given.

A bid was released allowing for a $62-million budget to outsource some of this assessing. Several people looked at it, but nobody in the end took an opportunity to take some of this money. I can't tell what their motives were, but probably they felt that given the time constraints and given the budget allocation, they could not do an accurate assessment in the limited period of time.

Accurate assessments will impose great difficulties, especially on large urban areas. The city of Winnipeg very recently went through a situation where it lost $54 million in tax revenue because of inaccurate assessments. If you scale that up to Ontario's larger population, this could be as much as $800 million.

Early on, before the names were changed, when the government was talking about actual value assessment, they touted the British Columbia experience as something they wanted to emulate. The British Columbia experience took over 20 years to develop the system of assessing, with accurate assessments and then continual updates. Even with that they've had extreme volatility out there. It's been extremely harmful to small business, as well as to residential taxpayers. They've tried three-year rolling averages. Everything they've tried to mitigate the volatility of the system hasn't worked to date.

Here we're attempting to implement a system with poor assessments and it's just a call for disaster. As more measures and responsibilities are shifted to local municipalities, they have to rely on a solid source of revenue. If you implement a system that's flawed by poor assessments, as I believe market value will be under the present time lines, you're courting disaster.

There are two other things I'd like to mention. One is tax policy. A lot of this has been left to future regulation. Without municipalities knowing what the tax policy is going to be, it's very difficult for them to look ahead and to plan and to budget. That's one of the problems Bill 106 opens for us.

Related to that is the elimination of the business occupancy tax. The previous speakers talked about that. A large amount of money is involved. It is $1.6 billion provide-wide. In Metro Toronto the figure is — I don't have it right at my fingertips, but it's a substantial amount of money, I think close to $500 million. This revenue has to be replaced somehow and this means shifting tax either within class or between classes, and without the regulations to know what is and isn't permitted, that's a very difficult task. That's one of the problems.

Related to strip retail, which is very prevalent in the city of Toronto and other urban areas — where you have very dense populations you have small stores along major arteries — under the proposed Bill 106, the tax increases will be devastating for retail strips. If you have a local council that has the ability to set some tax policy to balance this against the commercial in a downtown core like Toronto, you're able to balance the two and not drive small business out of business.

Without that, cities like Toronto and their strip retail are going to face tremendous problems, more so because the bill suggests regional governments have the responsibility for setting tax policy. In a regional situation where you have suburban, which have different needs than cities, they compete against each other in a situation where the votes in the suburban area outweigh; it's just not something that will be important to them.

You'll end up with a situation where your older municipalities that have the strip shopping — East York, York, Toronto, Ottawa, Windsor — will have tremendous problems through the lack of tax policy they can set at the local level to deal with problems small business will suffer as a result of the market value, because there will be tremendous tax increases as a result of that.

I didn't realize I was going to be asked to copresent with Michael and I've given a separate brief to the clerk so it's available to members of the committee. I've tried to link the importance of considering tax policy, whether it be market value or whatever, along with revenues municipalities need, including revenues for education purposes and the importance of doing that.

It has to be looked at not separately but as one package. To separate financing of education from the financing of other municipal services and other municipal responsibilities is just not realistic. So I've included some comments in a brief that was given to the secretary about linking two of those items together.

Finally, I would say that at a conference last fall, we heard a number of speakers from literally around the world — Israel, United Kingdom, California, British Columbia — talking about, first of all, shortcomings in the case of the BC actual value assessment, and viable alternatives to the actual or market or current value, whatever term you want to give it. I've tried to indicate some of those as part of the brief.

It seems to me that what you as a committee should do is recommend, first of all, the withdrawal of Bill 106. It's just too flawed and there are too many uncertainties. You should develop a menu of acceptable alternatives, including market value, but also unit assessment, acquisition value and allow our local councils to choose between provincially accepted assessment systems. In so doing, a council could well decide that market value, rental value, are quite appropriate for commercial-industrial, but something like a unit system is very appropriate for residential properties. In my brief I've outlined pros and cons of market value and the pros of the unit system, if you're interested.

Basically, that would draw it to a conclusion: Withdraw Bill 106, develop a database that can be used for any system that you or municipalities could decide to implement, and redesign the tax policy component to take into consideration a lot of the unanswered questions regarding tax policy.

The Chair: Thank you very much. You've used almost the complete time. We perhaps would have one minute for either a brief question or a comment from each party. We could begin with the government.

Mr Hudak: I just wanted to make sure that some things were clear on this bill, and especially the difference between what this bill proposes and the MVA approach that was, I understand, rejected by the city of Toronto some time ago.

I think what this bill does is adjust and make up for those difficulties in terms of an eight-year phase-in period, for example, and deferred tax increases for low-income seniors, low-income individuals. It also uses a three-year rolling average to offer greater stability to property taxpayers and uses multiple property tax classes to better address different property types.

You also made a comment about the private sector appraisers. My understanding of their role is to be in the field, to inspect property and to record what is there, but they're not making judgements on the value of property; that's being left up to the government's assessors, to judge that value. So I think, and I think many members on this side agree, this system does make a lot of sense. Certainly, if you're not from Toronto, and not knowing a great deal of history, it seems to me fair that a house of a certain value, whether it's in Rosedale or some other part of the city, should pay the same level of taxes.

This argument that somehow it has to do with the size of the property and how much that takes in water and sewer I think leaves out a vast realm of services in the municipal taxes now, like the health board, for example, like welfare, social services, children's aid etc. We can't lose sight of that. There has been for some time, and I think there will continue to be, a redistributive element in the property tax. I think that's recognized by the value. To argue that it should be based on the size of property or the size of the house is just a panacea to avoid paying a fair share of taxes by the people of Toronto and it should be throughout the area.

The Chair: Thank you for that comment. Mr Phillips.

Mr Milbrandt: Could I respond to that comment? No, I'm not allowed to? Sorry.

Mr Phillips: This is market value assessment. You'd need a forensic expert to tell the difference between this and market value assessment. It is, without question. In fact, the government itself says, "Don't worry because there's already been market value assessment done in the rest of the province so there'll be very little change." Any briefings we've had from the government say that this is market value assessment.

The government should just be honest with people and say, "We've looked at all the alternatives and we're going to put in market value assessment." To try and say this is different you lose all credibility out there. No one will believe you. If you try and argue, "No, we're not bringing in market value assessment," you look foolish."

I think the government simply has to acknowledge that you're doing it. That's what you're going to do. It's trying to tell the difference between two Chevrolets, that they're totally different cars because one's black and one's dark blue. This is market value assessment. If any of the government members want to go out and debate publicly that it isn't, they're going to have some real problems.

Do we have any time for questions?

The Chair: We're really out of time.

Mr Phillips: It's unfortunate because these are very thoughtful briefs that I wish we —

Mr Walker: On the comments that were made, those were all dealt with in the earlier proposals; there's nothing new in this. It's just market value assessment by another name. We call it a new alias.

The Chair: Mr Pouliot, you have one minute. I know it will be challenge.

Mr Pouliot: Even with the best of DNA evidence you couldn't come up with any. This is so thinly veiled and I'll tell you why. It's called a spin. During the campaign the policy of the PC Party has always been, "We will never impose market value assessment on Toronto." Everybody knows what everybody knows. MVA, AVA. If it looks like MVA, it is. If it walks like it — let's be honest about it. Nobody can decipher for it anyway. Let's not be hypocritical. I think personally the minister should resign.

Then he goes on to say — get this gem here: "The PC alternative," and, "Stopping the downloading...on municipalities." That's what they said during the campaign. Are you with me, Ms Bassett? Your name is on this. "Stopping the downloading," that's all I hear from my constituents from all over the province, downloading.

By way of a question, I want to know, out of the city of Toronto, I get a feeling reading the media that you're being abandoned. You are being milked big time. You will be the victim of downloading of unprecedented proportions. Some of your educational levy will be siphoned off. It will go straight into the big vac there, the general fund, and then el presidente will start doling it out bit by bit, but you're not going to get your share back. Do you feel you're going to end up a bit like Montreal was in its association with the Quebec government? Do you think the analogy is valid?

Mr Walker: We were considering that we're maybe more like Beirut or Cleveland.

The long and the short of it is that this tax reform proposal is going to hurt the whole province, but it's certainly going to hurt the city of Toronto.

The Chair: Thank you very much. We appreciate your presentation to the committee today.

This committee stands in recess until 2 pm this afternoon.

The committee recessed from 1205 to 1400.

GAY BELL

The Chair: Welcome back from lunch. Our first deputation is Ms Gay Bell. Welcome.

Ms Gay Bell: Because these are my students and they're just learning English, it is easier if they can see my mouth. Would it be possible for me to sit over here? With my back to them, it will be difficult.

The Chair: That would be fine, with the permission of the opposition and the third party.

Mr Pouliot: No problem with unanimous consent.

Ms Bell: Thank you. My name is Gay Bell. I am an English-as-a-second-language teacher. I invited my students and my colleague and her students here today to see democracy in action.

This is my colleague Eileen and students Hieng, Li and Connie and Su and Hai and Ngan.

One of my students, Lang, worked in Canada for eight years before she was laid off. She could not speak English for those eight years in the factory. Now she comes to class every single day to study English. She has two children who are working and putting themselves through school. She is living on a low income. Her family cannot afford a rent increase.

Xue Ying, Hai and Su are retired. They live on low incomes. They said that the problem is that the government is cutting seniors' money at the same time as their rents are going up, so they cannot afford to pay more rent.

Another student, Raqia, has a husband who is sick at home with diabetes. He needs injections every two hours. She cannot be away from him or her children for very long. Since our classroom is right beside her home, she can come to class, but she can't go out to work. She herself has severe back pains and so working would be difficult for her. The family is on a very limited income and would not be able to pay more rent.

Su worked in a factory for five years. She has three children in school and one more is working. Two of her children are in university. They borrowed money from OSAP, the Ontario student assistance plan, but they don't have money to pay a higher rent.

You can see for yourselves that these are decent people who worked hard and who take their responsibilities seriously as parents. They deserve to be treated fairly. Last Saturday's Star quoted a recent Angus Reid pollster who said, "When we asked people what was the main responsibility of government," you know what the top answer was? "To take care of us."

Taxes are a key part of democracy. If taxation is fair, then a country has a better chance of being democratic.

The Toronto Star article about Bill 106 said that about 20% of properties would get an increase of up to 40% on their property taxes. This is clearly an impossible increase for my students to pay.

Property taxes should not be linked to ability to pay. That's the purpose of income taxes. Property taxes should not be used to fund social programs. That would drive wedges between people. People would blame the poor for their increased property taxes, and people who have the money will move out of the downtown core, which will

mean that the city will be left without those who have enough resources to advocate for decent services.

Another problem with Bill 106 is that it will scrap the business occupancy tax. Supposedly that will help businesses, but the question is, which businesses will benefit?

I spoke to my hairdresser about that. He has a small salon on College Street. He said he will be badly affected by the increase in property taxes. He already pays about $7,000 in property taxes, so a 40% increase would be a lot more for him to pay. But he only pays about $1,200 in business occupancy tax, because it's based on a square footage and he has a small place. Consequently, although he may save $1,000 on the business tax, he'll have to pay $3,000 more in property tax.

But he said the hotels are the ones who pay a lot of property tax, because they pay by square footage multiplied by the number of floors in the hotel and increased by the high-use desirability of the site. If we scrap the business tax, it means that international corporations, the owners of these big hotels, will save money, and our own local small business people will still have to pay high property taxes.

Finally, if we increase any kind of taxes on working people or poor people, we have to increase their ability to pay the taxes. In other words, people can't pay more unless they get more work. But all across Toronto and the boroughs, students are looking at a loss of adult English classes through Bill 104. If they can't learn English, it will be practically impossible for them to find work and make the money to pay higher taxes. Consequently, I strongly recommend that both Bill 106 and 104 be withdrawn.

The Chair: Thank you very much. That leaves us about four minutes per caucus for questions, and we'll start with the Liberal caucus.

Mr Monte Kwinter (Wilson Heights): Thanks for your presentation. You have really touched on an issue that I've been hearing a great deal about, and that is taxes based on your ability to pay rather than the value.

It's interesting that in statements at both first and second reading the Minister of Finance said that what is really happening is that too many people are paying too much tax and this is going to be fairer. He didn't say that there are lots of people who are paying too little tax and are going to have to pay a lot more. That is going to impact on exactly the people you're referring to in your statement. Do you have actual cases of what those changes are going to mean for the people you're here representing?

Ms Bell: It's difficult to project what will happen without more concrete information than I was able to obtain. I'm just working from newspaper articles. But I would be happy to try and pull the cases together, because certainly within our ESL community there are lots and lots of students in similar situations.

Mr Kwinter: Yesterday the minister admitted that with the removal of the business occupancy tax, it was possible that property taxes will be going up. That of course begs the question, who is it you're trying to benefit? Are you trying to benefit the taxpayer? Are you trying to benefit the businesses? I'm certainly an advocate of making businesses as competitive as we can, but at what cost? We have to make sure you're not benefitting one sector of society and really creating severe problems for another sector.

Ms Bell: I agree with you. That's right.

Mr Kwinter: These students of yours are people who are adjusting to a new society, trying to learn the language, trying to make their way in a new country. It would seem to me that the government should be doing all it can to ease their way, as opposed to putting these impediments in front of them, so they don't have these problems.

I was reading in a publication just the other day that in Vancouver, which has had a disproportionate, I would say, share of immigrants, particularly from Hong Kong and China, there are thousands of people leaving and going back. They have found that their taxes have been going up and their costs of adjusting into the society are beyond their reach. While they thought they were coming to a land of opportunity and a land where they could do things, they find that the reality does not match what they thought the opportunity was, and they're now going back. Have you found that happening in Toronto at all?

Ms Bell: I think that depends on the income level. It's difficult for people who have a very low income even to get plane fare, let alone relocate back to their countries. But they certainly do express that sentiment, yes.

1410

Mr Pouliot: Thank you very kindly. For me too English is a second language, and you will forgive me if I'm a little hesitant from time to time for exactly that reason. I have to work doubly hard at the language of the majority.

Your presentation brought out what it's all about: the human dimension, people. I sense in your presentation, and I don't wish to be too harsh, that people could be from time to time insecure, frightened maybe, not knowing that the government will take care of us. If I were to ask people candidly — I'm not the one saying this; I've heard it said by others — if they feel that the present government is mean, that if you don't have much money, if you're not quite rich, then this is your fault because you have all these opportunities — you see, this bill is a bill that will benefit the banks. The bank towers will be paying less money. We all know that the banks have done quite well. They've done well with the rich, with themselves, but they've done well with the poor too. We all know that if we don't have a bank account, we cannot exist in this country.

I say this by way of observation, but more important, perhaps, with the permission of the Chair, someone could tell us their personal circumstances. When all is said and done at the end of the day, if we don't reach an equilibrium, it's people like yourselves who suffer, and we're all on a waiting list of sorts, be it by virtue of health or by being elderly. If you don't say, "Enough; you cannot do this," well, nobody else will. You have said that by being here today, so I thank you very kindly.

Ms Bassett: Welcome, Ms Bell and students. I'm delighted you're learning English, and good luck to you.

I know you haven't had access to the whole bill to read it, but I wanted to point out a message you could maybe take back to your hairdresser, because you said he or she might be worried about the business tax going up.

The business occupancy tax — I think all three parties have agreed they want to get rid of it — was brought in in 1904, when in this country, ladies, if you understand, we used to drive horses and buggies. That's when this tax came in, not a time for us to be copying. It's outdated, obviously. There are five arbitrary rates, and there's no logic to how you charge on businesses, so a bakery could be charged a 30% tax rate on its assessment and something else would be charged far more. Maybe the hairdresser is paying far more. There is no way to explain.

We're trying to bring in a system that you can understand clearly, and the municipalities are going to have the choice to say that over a certain level they're able to create a two-tier system so that they can take the big companies — I don't like to name any but "bank" seems to be coming to mind these days — they could take banks and then they could take your hairdresser and the local cigar store or grocery store and they could put different taxes on those two tiers. That way they will be able to encourage small businesses, that are of course the heart of this country, and allow them to stay in business.

That is the municipality's responsibility and they've wanted that in order to support and protect small businesses that they count on so much. So I hope, Ms Bell, you'll take it back to your hairdresser you were talking about and your other small business people with whom you deal.

Mr Hudak: I want to follow up with the deputant. Did you say that municipal taxation should not be related to an individual's income or their ability to pay? Did I catch that correctly?

Ms Bell: I said that, yes, income tax should be related to a person's income, but property taxes should not.

Mr Hudak: But we've had that component for some time and municipalities, especially in Toronto, already pay for a lot of the social services that are also funded by income tax, like health, welfare, social services, children's aid, all of these things. These items for redistribution are helping those who come from the lower-income families.

So I'm puzzled. If it's okay for the income tax, if the municipal property tax is paying for these services as well, then why shouldn't somebody in a nice home in Rosedale pay their fair share to help out people who need these services? Why should they be paying what many would describe as not a fair share? Why would you want property tax to be a regressive tax, especially when for many years it's been driving businesses out of this city into the suburbs, bringing forth people today who are looking for jobs and, just because we want to subsidize the homes in Rosedale, for example, chasing jobs out of Toronto? So I'm puzzled. If municipalities do have these social services, why would you make property tax a regressive tax?

Ms Bell: I can't follow you as fast as you're going, but it seems to me that it makes more sense. If you look at the whole issue of income tax, some of the problems are that people who have high incomes can afford all kinds of legal loopholes and so on to get out of paying their fair share in the first place.

Mr Hudak: If they have these nice homes, why shouldn't they pay their fair share of taxes too, instead of proposing things like unit assessment and these other kind of loopholes? Why do you want to create loopholes for taxpayers who live in large houses in Toronto? Shouldn't they pay? Obviously, you're against the loopholes; they should pay their fair share. Why shouldn't they pay their fair share for municipal services too?

If you believe that the wealthy should pay a significant portion of health care and education and such, because you support progressivity in the income tax, if the municipal tax also pays for health care and day care and education in some ways, and children's aid, why shouldn't that also be a progressive tax? Why are we letting the wealthy homeowners off?

The Chair: I think our time has expired. Thank you very much, Ms Bell, for attending the committee and making your presentation. I hope your students found it enlightening.

1420

AL SABLATNIG

The Chair: We now welcome Al Sablatnig. Welcome to the committee.

Mr Al Sablatnig: Honourable minister, members, thank you for the opportunity to appear before you and to inform you of my experience with the assessment process and share with you my views as to one section of Bill 106.

My name is Al Sablatnig and I have managed apartment buildings for the last 10 years. For the last six years, I have been involved in property tax appeals. You may say that I have been working with the system, so I can give you a little bit of an insider's view of how the system works.

I'm specifically addressing section 28 of Bill 106, which will repeal section 43 of the Assessment Act. It relates to the appeal provision for disputes relating to assessments by eliminating the appeal to the Ontario Municipal Board. I appeal to you as members providing input to this piece of legislation not to repeal section 43 of the Assessment Act. I ask you not to repeal and eliminate the appeal to the Ontario Municipal Board.

I have three reasons for that. I believe the elimination of an appeal to the Ontario Municipal Board would result in a gross miscarriage of justice in Ontario. It would result in increasing further presently rather unfair and arbitrary public administration practices. I'll provide you with some examples later on. I have far more if you are interested in more details than I have here today.

I believe that perhaps the appeal procedures should be strengthened rather than weakened, and perhaps assessment officers who carry out unfair, malicious assessments should be held personally liable.

Part of the problem is really the assessment process of market value assessment. It does not have rational or measurable criteria. I believe you should be aware that Ontario, some provinces in Canada and some states in the United States are the only countries that use that approach. Other countries in the world don't use market value assessment at all. They are subjective judgements and there's a very high degree of error involved. It's also an extremely expensive system to operate. Germany uses

a unit-based system for a population of 90 million; they have 60 people to administer it. For 12 million people, we have about 4,000 in Ontario.

One of the consequences of market value assessment is that it's a gradual devaluation of your property. You penalize the conscientious property owner and you reward the slum landlord, so to speak. If you want to see the act in action, I invite you to come to Brantford where you can see the physical devastation which has taken place over the last 50 years; Toronto, in some areas, is also an example.

My primary concern — it's my third reason — is actually the unusually high degree of arbitrary judgements, and I would go so far as to state that the staff implied by the Ministry of Finance is really unable to carry out fair and good assessments. This may be a strong statement to make, but I'll give you three examples.

The first example deals with apartment buildings in Brantford in 1992 and 1994. It applies also to 1996-97. The second example I have is a residential neighbourhood in north Toronto. I'll analyse it. The third one is an industrial area in Milton.

My write-up provides you with some text, but can I take you to example number one on the next page, which is a statistical summary of approximately 50 apartment buildings assessed and analysed. The block, which has some figures to the right-hand side, are apartment buildings under the rent regulation act. You have the address, the number of units, the assessment. You have the assessed revenue. The process to assess the revenue is an estimate of the revenue which is done by the assessment office.

I have taken the maximum legal rent applicable in 1980, the same year the assessment base has been established, and compared it. On the right-hand side, you see a column of percentage figures. What I find very surprising, and everyone in the province knows that you cannot charge more than 100% of your maximum legal rent, is that the assessment office assesses practically half of all the apartment buildings in Brantford between 100% and 130% of the maximum legal rent. I want to point out to you we had to appeal this decision to the Ontario Municipal Board and it cost our company about $35,000 to get this appeal processed.

I have highlighted two apartment buildings in dark colour, one at 109% and the other one at 82%. These are two apartment buildings, side by side, same quality. Why is one at 82%? Why is the other one at 109%? We cannot get an explanation from the assessment officers.

I also want to point out the error range. In percentage countings, 52%; on a percentage calculation basis, 161%. That's a very high ratio of error, in my opinion. What I find particularly upsetting is that the information about maximum legal rent is available in the assessment office on their computers. It is public information; everyone has access, including the assessment office.

May I take you to example 2: Residential neighbourhood in north Toronto. On houses, we don't have maximum legal rents to compare so the preferred method by the assessment office is to establish a ratio and compare the assessment with the so-called market value. The assessment is a subjective figure, the same as with the market value. You find the range of assessment to market value ratio in the right-hand column of the upper block of example 2 on page 1.

I have introduced, for analysis purposes, one of the rational criteria — that's the square footage of each house — and I used this in a lower block to present it to you. One of the things I want to point out is the column with the S's in there. This is senior citizens. On a market value assessment, it would appear to be all in the lower range; it means their assessment should go up. But if I look at the so-called assessment, the square foot ratio, all the senior citizens are assessed high. They are ranging between 60% and 87%, whichever you pick.

I'd like to take you now to page 2. Particularly, I want to get Mr Tim Hudak's attention here because the example he used on Rosedale before — I want to bring something to your attention which is on page 3 here. I compared two streets, side by side, same neighbourhood. One is medium-sized houses; the other one is large houses.

If I use the assessment office ratio of assessment to market value, which is iffy under the best of conditions, I get a comparison ratio. Let me point this out first: The upper part is medium-sized houses, the lower part of page 2 is larger houses. Again, you have the assessment, the square footage and market value as the primary figures and then analysis columns on the right-hand side. The second-to-last column is the assessment to market value ratio on one side, which is used by the ministry. At the bottom you can see that it looks like the larger houses are assessed 13% higher than the medium ones.

1430

If I analyse the same data based on square footage, which is the right-hand column, the medium-sized houses, on average, have a market value of 311 per square foot while the large houses only have a medium value of 227. That means the larger houses in Toronto, through the market value assessment process, are generally undervalued by 20% to 30%.

So when the honourable Mr Hudak suggested that the larger ones, the richer ones should pay, they are not paying their fair shares. Smaller houses are taxed far higher in Toronto than larger ones. I believe the data here suggest very clearly that the average assessment of the larger one, on this particular block on the street of 14,500, refers to 4,000 square feet of housing. This is a concern. You may have some questions for me later on; there's no doubt about it.

The third example I have for you — I don't have any specific date here — is an industrial building in Milton which was built in 1987 for $143,000. The assessed market value on this building at the present time is $1.3 million. I don't know why.

Ladies and gentlemen, we need the appeal process. By eliminating the appeal to the Ontario Municipal Board, these things could not be appealed, because the Assessment Review Board has been proven useless in dealing with appeals. I appeal to you: Please do not repeal section 43 of the Assessment Act.

You may have questions.

Mr Pouliot: Thank you very kindly. I too share your concern vis-à-vis the elimination of the appeal process. I

know you cannot say, but I can say, dealing every day with the present government, that this is part of the exercise that's taking place — it's one more every day. You see, sir, accountants and appeals get in the way and slow things down. This is action directe. "You do as we say you will and that's the way things are, for your own good, whether you like it or not."

You've mentioned throughout your presentation market value assessment. They would have us believe that this is not market value assessment, that this is actual value assessment. Under the finest of microscopes, no one can decipher. When you talk about the intent and spirit, it's pretty well the same thing. It means the same thing: You're going to be reassessed.

I want your comments on the following: Some of the fine examples show that it is not totally consistent. In the next 11 months, they will assess and reassess 3.8 million units and they won't give the large portion to the professional assessors. It will be done by people who will do some training on the job. It is expected that upward of 900,000 will appeal their assessment. What are your views when you see the kind of catastrophe that is about to unfold in front of us? If we think this job is bad, what do you think the next job will be like?

Mr Sablatnig: It will be a horror story. I believe the city of Toronto has made presentations to carry out assessments based on unit — that means area — on an experimental basis. The city of Toronto can implement this within two or three months without additional expense. We don't have to go out and — I can give you statistics on the comparisons between assessments based on area versus based on value.

I should also perhaps draw your attention to how market value is established. If one goes and buys a house, generally houses are financed. One goes to a financial institution and borrows money. The amount of money borrowed is determined on the personal credit rating. It has nothing to do with market. The example I have is that when a European bank president was transferred into the city, we were paying 12% interest. He got benefits of 6%. He felt that the 20% higher price, compared to Europe, was a deal and he went ahead with the price. Is this a market price when he pays 6% while we have to pay 12%?

I have some very serious concerns about the whole concept of market values, because they are not, there is no such thing.

Mr Joseph Spina (Brampton North): Thank you, Mr Sablatnig, for something that appears to be very, very well researched. Seeing as how your position has to do with property management — did I catch that?

Mr Sablatnig: Yes.

Mr Spina: You obviously have some insight into it. But there are a couple of elements that we wanted to clarify with you, and I know my associate Mr Hudak wants to talk you about that.

The one element was the appeal process that you referred to. First of all, I wanted to clarify something, that section 43 is not being repealed; it is being amended. What we are trying to do, Al, is to simplify that appeal process. Right now, as you know, you go through an Assessment Review Board and then it ends up at the OMB.

Let me clarify that: First of all, right now there is $100 million being lost a year by the Metro Toronto municipalities as a result of that appeal process. That is already on record and clearly has been analysed and pointed out. How do we rectify both the lost revenue for a municipality that perhaps they could be entitled to — I didn't say "should" — and how do we address the matter of fairness, which you so eloquently really are striving to achieve, just as we are?

In our opinion, on the first element, which is the appeal process that I spoke about, we are trying to simplify it with the Assessment Review Board. The court of law is still available on matters of law once that ARB process is completed. You see, there is still a process for the homeowner to follow through on their appeal.

The important factor is that under this new process we are simplifying it. In the past there was a 30-day time limit just to get to the hearing, but we have put a 90-day time limit on the entire process, because once you go to a review board and then you're going to the OMB, that could take as much as one or two years. I'm sure you either have experienced it personally or are aware of people who have experienced that. We've put a 90-day limit. We feel it is only fair for the taxpayer to know what their status is as soon as possible, whether it's a residential homeowner, whether it is a business or whether, on the other hand, it's the municipality itself.

I just wanted to address that. I'm going to defer to my associate on the inequity.

Mr Sablatnig: Could I briefly comment? Number one, the $100 million lost is not lost. These are misjudgements by your assessment people. Let's get this very clear.

Mr Spina: These numbers came from Toronto, not from our assessment —

Mr Sablatnig: I realize that. As a matter of fact, the city of Toronto last year collected $1.873 million in property taxes. That's simply the city of Toronto. Of that, 54% — that means $960 million — had nothing to do with the city. The city budget is only $500 million. The board of education took the largest chunk, $1.056 million, but the Toronto Board of Education got only $584 million back. The money is being exported from the city of Toronto. You have to come to grips with one issue here which has nothing to do with the city itself. We have an unfunded federal program for which the local taxpayer is paying.

1440

Mr Spina: Unfunded federal program?

Mr Sablatnig: We have an unfunded federal program.

Mr Spina: I'm sorry; I don't understand what you're speaking about.

Mr Sablatnig: We have increased the population in the last 20 years from six million to 12 million. The federal government doesn't pay for housing. The federal government does not pay for places of work. The federal government does not pay for hospitals, roads, infrastructure, subways. We pay it. We have exported from the city of Toronto in excess of $900 million per year to outlying areas. That's the 1952 Metropolitan Toronto Act. The federal government for Canada spent only $700 million on immigration last year; this year it's $600 million. You may advise the federal government what our free capacity is or what our willingness is to pay for federal programs.

Mr Spina: What are you suggesting here then, Mr Sablatnig?

Mr Sablatnig: The Ontario government has a responsibility to advise the federal government what our free capacity is to add additional population.

Mr Spina: Are you suggesting that the federal government ought to be putting more money into subsidizing growth or immigrant housing?

Mr Sablatnig: Either reduce the quantity or find the money to do it.

The Chair: I think we're wandering away from Bill 106.

Mr Sablatnig: You cannot send 200,000 people here and say, "Accommodate them."

Mr Kwinter: Thank you very much for the work you've done. It's very informative and you're to be commended for doing it.

I want to pursue an area you were talking about, and that is the whole review process and the whole idea of people appealing their assessments. The idea that's been floated out, that certainly I just heard one of the government members suggest, is that the city is losing a tremendous amount of money because of these appeals, whereas it's just the reverse. They've been getting the benefit of a huge amount of money that has not been rationally applied.

In my constituency office, when these appeals were coming through, I had constituent after constituent coming to see me and saying: "I just found out my neighbour is paying a lot less taxes than I am. How come?" I said: "That's a good question. I don't know. Go and appeal it." They would go and they would appeal it and invariably they would win. The reason they would win is because somehow or other these assessments were arbitrary. They're judgement calls, but there hasn't been a uniform application of the criteria. I assume by your illustration exactly the same thing is happening with rental buildings, with industrial buildings. Would you like to comment on that?

Mr Sablatnig: Yes, exactly. The only way out of that one is to use rational criteria, like area. You can take a tape measure and measure. Right now, it's a judgement call and it depends which person it is, how honest the person is. My personal experience is more or less the assessment officer's dislike of me personally perhaps or somebody wants to make a career move and he's particularly hardnosed about assessments.

There is at the present time no rational basis for it. If you want to change something in the Assessment Act, I believe it is section 19. It says it should be done on market value. I would like to suggest, if I may, that it should be tried at least on an experimental basis on unit, on area. You wouldn't have any appeals.

By the way, the figure in terms of tax arrears in the city of Toronto is $217 million. It's not $100 million; it's $217 million at the present time in arrears — more than 10%.

Mr Kwinter: There's a whole other area of concern I have and I'd like to get your comments on that. I know of a particular area just outside my riding where the so-called monster homes are being built. There are people living in very modest little bungalows that were built right after the Second World War, and because of what has happened in the market, where suddenly it is being determined that from a geographic point of view this is a desirable area to live in, because of its proximity to the various amenities that are around, they are building these homes which have driven up the value of these properties. But for the people who are living in those houses and have been living there for maybe 20, 30, 40 years, nothing has happened to enhance that value for them unless they're going to sell. They are then confronted with the problem of being forced to move out of houses that they can no longer afford to live in just because things have changed around them. I think this bill, from what I can tell, although they make some allusions that they want to address it, hasn't effectively addressed that issue.

Mr Sablatnig: That is correct. It has not.

Mr Kwinter: Do you have any suggestions of how it could be addressed?

Mr Sablatnig: Use the European system that is commonly used in Europe.

The Chair: Thank you very much, Mr Sablatnig. We've enjoyed your presentation very much.

PETER MILLIGAN

The Chair: We now welcome Mr Peter Milligan from the firm of Poole Milligan.

Mr Peter Milligan: I'd like to just correct for the record that I am not here on behalf of Poole Milligan today. I'm simply here in my personal capacity as a citizen and as a ratepayer in the GTA.

I'll begin by saying to the committee, and I thank the committee for this opportunity, that I am a homeowner in East York. I am a lawyer. My practice over the last 20-some years has emphasized and is exclusively now within the area of property taxation. I view myself as a property tax practitioner as well as someone who is interested in taxation policy and I thought it important to come today and speak to you.

Among other things, in addition to my practice, I'm a member of a number of associations, including the International Association of Assessing Officers, the Institute of Property Taxation, and I am the executive editor of a publication in Canada which is entitled Focus on Canadian Municipal Assessment and Taxation.

I come here today really as a private citizen to thank this government for taking what I believe are courageous steps finally to deal with a system that some have described as broken but which I would certainly describe as one that lacked sense. The time has come for reform and I believe Bill 106 is the beginning of that reform.

I want to make it very clear that I certainly believe, as a professional and as an individual who has had some experience with property taxation, that this is an opportunity that cannot be passed up at this time. Over the 20 years that I have practised, other governments, including going all the way back to the early Conservative governments, had the opportunity to correct the system. The opportunities were not taken. We found ourselves confronted with serious problems in Ontario and Bill 106 is definitely a positive step.

I really haven't prepared any material today but I'll address an issue that was raised by the previous speaker, which is the appeal process, as it's something that is very close to my heart and that I am very familiar with as a practitioner.

I am fully in support of the streamlining of the process which is indicated by the amendments to the various sections of the Assessment Act. There is no question that back when I started practising there used to be three levels. We used to go to the assessment review court, we then used to go to a county judge who sat as persona designata under the act, and then we ended up at the Ontario Municipal Board, and in each case you basically went back to square one and you started over. Talk about an absolutely irrational and uneconomical process. That was in the 1970s.

We're now in the 1990s and the process is equally irrational and uneconomical from the taxpayer or ratepayer point of view, but also from the assessor's point of view. I'm thinking now, looking downstream at the reality, that the assessment function will become the function of an authority or perhaps a crown corporation and it will no longer be a function of government. In any event, there's a lack of economics and a lack of sense on both sides. So the streamlining of the process, I think, makes great sense.

The concern that was raised previously was the eradication of the Ontario Municipal Board. I don't think that's really going to occur. My understanding is that the recommendations of the Wood task force on agencies and commissions, which were recently released, are that the Assessment Review Board and the Ontario Municipal Board function be combined.

1450

When I'm looking at Bill 106 now as a professional, I am reading "Assessment Review Board" as basically meaning the quality of the hearing of the Ontario Municipal Board. If that's not the case, then I strongly urge this committee to see that it is the case. But I believe that the quality of the hearing that will occur will be the quality one now has at the Ontario Municipal Board, and if there is an implementation of the recommendation of Mr Wood, then we will have, I think, a kind of one-stop-shopping at a high quality level where there is real accountability and the delivery of natural justice.

That wasn't really in my remarks, but I just listened to the previous comment and, having just recently read the recommendations of Wood, that's how I read it and certainly I would hope this committee would agree with that.

In the few minutes I have, let me just touch on some things that I think bear on ratepayers generally. It is extremely important that this government deal with the matter of interest on overpayments of taxes. This is regardless of whether you're a homeowner or whether you're a commercial interest. It is extremely unfortunate that since the amendments were made in the 1970s that made it permissive that municipalities pay interest and enact bylaws, most municipalities in Ontario do not. They have had a free ride at the expense of ratepayers of all forms. That must end. Just as municipalities are entitled to charge penalty interest for failure to pay tax, they should be required to pay interest on overpayment, and it should be at a fair rate and it should be mandatory in the legislation.

They were given the opportunity when the Association of Municipalities of Ontario made those representations to the last Conservative government and got the amendments they required. It was anticipated they would enact these bylaws, and they were not enacted. So enough's enough. It's time that interest be paid to any ratepayers who overpay their taxes. I think that's just fair and that's common sense.

I also want to talk about the assessing authority. I realize this is not really in Bill 106, but it's implicit that coming down the pipe will be some additional legislation, and it is contemplated that eventually the assessment function will become something other than a government function. If that happens, I strongly urge this committee to ensure that all stakeholders' interests are taken care of in whatever entity is created, whether it is a non-profit corporation or an assessment authority.

The suggestion has been made to me, "This is going to be kind of a municipal game." Given my previous comments on the matter of interest, I frankly am not comfortable with that and I would think common sense again dictates that all interests be at the table of whatever authority will administer the assessment function in this province. In other words, not only will municipal interests be there, the interests of this government in terms of the integrity of the assessment process and the quality of the delivery of that service, but also the ratepayers who will be the taxpayers, because there are two sides to the equation.

Right now we have a kind of triangle. We have assessors, we have municipalities as the tax collectors, of school boards there as well, and we have the taxpayers. I can't imagine having some kind of so-called authority or non-profit or crown corporation with a board which would not have all the interests represented at that table in terms of the decision-making process and the delivery of the service.

Let me talk about some of the specific interests I have. You have already heard from the representative of the Hotel Association of Metropolitan Toronto, and this really bears on why I think, as we move into the future, we need to have all interests at the table in terms of the accountability of the process. Hotels in Metropolitan Toronto have been severely discriminated against for well over 15 years. That has caused significant economic dislocation and it has caused commercial harm to the general good of Ontario. That has to be corrected, and it will be corrected by Bill 106. I've seen the draft regulation which was evidently made available yesterday and I'm very happy to see that hotels will be treated as commercial property.

That is an example of the kinds of things that can happen if there is not a full accountability in terms of the delivery of the assessment function.

Another area where there has been serious harm done to the province has been in the private power production industry. Private hydro-electric power projects basically are on total hold in this province because of certain assessment practices that were changed midstream which

have caused great economic harm to that particular industry. Here we are looking at a time now when this industry will begin to compete on a North American grid-wide basis and we have it basically hamstrung. You'll probably hear, if you have not already heard it from the Independent Power Producers' Society of Ontario, that you have individual projects which have been forced into bankruptcy and liquidation because of these policies, again an example of why you need to have all interests at the table in terms of the delivery of the assessment function.

The regulation I saw yesterday has a section that says "farm land," but it doesn't deal with farm land. That's another area where there has been severe dislocation, and that is farm land that is being held pending development for other uses, either industrial or residential subdivision uses. That has become a significant bone of contention. It has caused serious dislocation within the development industry, and I'm sure you will hear representations from them.

Again not getting into the detail of it, I simply indicate that is why you need to have all interests involved and being able to be heard as the matters of tax policy and assessment policy are dealt with by an authority.

Let me talk about one of the specific concerns I have with Bill 106 — and my concern may be dealt with by the later legislative package which I understand will come down in May or June — and that is the right of appeal of tenants. It is extremely important in my view that tenants, and I'm thinking particularly now in the commercial context, small retail tenants in shopping centres, commercial strip plazas and elsewhere, have a right to question the value that is being placed on their property for property tax purposes.

Obviously this is an area of uncertainty because we're not yet certain what's going to happen in terms of educational levy, but if the tenants' right of appeal were to evaporate, and if only the owner of the property were in effect to have a right of appeal, in my view it would deprive those tenants of a fundamental right to question the amount of tax payable with respect to their demised premises.

I think all of us are commercially savvy enough to know that when a landlord enters into a relationship with a tenant in a commercial context, normally there is a complete pass-through of all costs, including taxes. Therefore, there's not a very great interest on the part of a landlord to deal with his tenant's interest in that regard.

I think it's extremely important to jealously guard and protect the right of an individual tenant to question whether or not the value, for realty tax purposes of their premises, is correct. You don't want to have a situation where an assessor says to some tenant: "Oh yeah, I've used the wrong fair market rent. Jeez, your assessment value is much too high, but you know, when I did the total for the shopping centre or the plaza, it was low, so I'm not going to do anything for you." That's incredibly unfair. I think we have to look in terms of this legislation and the fleshing out, perhaps in the next package, of an assurance that tenants will have a right of appeal.

Finally, I would comment that I am concerned about the phase-in concepts and the phase-in provisions. Obviously phase-ins may deal to some degree with the question that was raised I believe by Mr Kwinter. That might be an answer to the homeowner you were talking about, where the municipality will phase in over up to eight years the increase in the burden. Of course, eight years is an awfully long period of time, when someone can say, "Well, what am I going to do with a property that was once worth $100,000 that now as a lot for a monster home is worth $1 million"? On the other hand, the phase-ins can have a very deleterious effect on other types of properties. I'll use the example of the hotels. If you were to phase-in, based on their current levels of taxation in 1996, over eight years to get them to where they should be, that would be absolutely disastrous and totally economically unacceptable. So I have concerns there as well.

1500

I know I've spoken more than 10 minutes already and I could probably speak a lot more, but I think I'll leave it there. Thank you very much. I want to again congratulate this government on its courage in coming forward, because I know, at the end of the day, that none of the money that has been collected for realty and business tax ends up in general revenues of this province. It goes to the municipalities. The previous governments and this government have been the custodian of the function, and I think it takes courage to deal with something when you know it's going to create the kind of firestorm that it appears to have created in this province. Anyway, stay the course.

The Chair: Thank you very much. I think that leaves us with about two minutes each for questions. We'll start with the government side. Are there any statements or questions?

Ms Bassett: I would like to thank Mr Milligan for his compliments on what we're doing and his urging us to stay the course. I wonder if you could just, for the record, say why you think it's a much fairer plan.

Mr Milligan: I'm a very firm believer in market value properly administered, and one of the things I have always taken to heart in my practice is that a taxpayer should pay their fair share; no more, no less. A market value system, or actual value or whatever you want to call it, if you look around North America and you look around most of Europe, if you look around most of the world, a market value system, properly administered and kept current, is a good measure of value for the delivery of taxation at the local level.

Mr Kwinter: Thank you very much, Mr Milligan, for your presentation. I just want to make an observation. In the 1970s, not only were there three levels, there were four levels, because you could always appeal the OMB to the cabinet. That created another level.

Mr Milligan: You also have the appeal, as was pointed out in the previous comments, to the law courts, and we still have that. That right is fully preserved as a result of the amendments that Bill 106 makes to the Assessment Act. So we'll still have of course the right for, in effect, a judicial review on a matter of law of decisions taken by the Ontario Municipal Board.

But what I think is important is that once you go there and once people take the time — and I'm thinking now

of my neighbours in East York who have appealed their assessments individually, and some of them have come to me and said: "Gee, what do I do? How do I go about this?" They go to the Assessment Review Board, they get a result, and all of a sudden they now are involved in an Ontario Municipal Board hearing and they have to do it all again. At least this is one-stop shopping, and I think that makes a lot of sense.

I think it's important that the Wood recommendations be acted on quickly in terms of their implementation. If this bill passes and we have a reassessment of this province in 1998, I realize there are some transition issues that have to be addressed, but when we're looking at the review of those new values and those new assessments, I think it's important that we be dealing with, in effect, the combined Ontario Municipal Board/Assessment Review Board as contemplated by Wood.

Mr Kwinter: Could I just have a brief explanation? When you talk about this interest on overpayment, I assume that's when you appeal. There isn't an overpayment if you're —

Mr Milligan: It's after the decision. Back in the 1970s, after you got through at the Assessment Review Board, there was nothing in the act that said that you shouldn't get your refund at that point, so the practice was that municipalities would make refunds at that point. The Association of Municipalities of Ontario successfully lobbied the then-government to make amendments to the Municipal Interest and Discount Rates Act and to the Assessment Act to say that basically nothing would happen, nothing was finalized, until all appeals were complete. As part of that, there was the amendment to the rates and discounts act that said municipalities may enact bylaws to pay interest. So the municipalities got what they wanted, which was that they didn't want to have to pay the money until it had gone through the OMB. Their argument was they were losing business taxes. Companies or businesses would be successful, would get a refund, then go out of business and they'd never get the money back. So all right, it makes sense. That doesn't bother me. But the government of the day said: "All right, that's fair, but pay interest and we'll make it permissive. You may enact bylaws."

Well, guess what? I think at the present time nine or 10 municipalities out of over 600 are paying any interest, and the rates that they're paying are absolutely ridiculous, so it's a usurious exercise.

Once you collect the tax, Mr Kwinter, then in my view — if I give you $100 and I should have only given you $80, and you've had $20 of my money and you use it for five years, then I think I'm entitled to have an accounting from you as to that $20, at whatever the current rate of interest.

By the way, the municipalities charge penalty interest and they should basically be mirrored, in my view. In other words, if they're prepared to charge penalty interest for non-payment, then they should be prepared to pay it when they've overcharged. If we have an assessing authority in this province where the municipalities are stakeholders on the board of directors or whatever it is, then they can make sure that the assessment function is being delivered in a quality way that the chance of their being overassessed and overtaxed is minimized.

The Chair: Thank you very much, Mr Milligan. We appreciate your presentation before us today.

LAWRENCE PARK RATEPAYERS' ASSOCIATION

The Chair: We now welcome the Lawrence Park Ratepayers' Association. Mr Teichman, welcome to the standing committee on finance and economic affairs.

Mr George Teichman: There is a certain set-up time here. I was up until 3 this morning preparing this, so I hope it comes off all right. I haven't checked the English sentence structure too carefully, actually.

Thank you, Chair and members of the committee, for the opportunity to speak. I am a director and past president of Lawrence Park Ratepayers' Association, and come to you today representing that association.

I also come to you with some experience in the area of assessment, since I have worked in urban planning and development and real estate management for the past 30 years. I am the principal shareholder of Upper Yonge Properties Ltd. and Glencairn Properties, which in turn own small strip plazas, industrial malls and residential properties, inside and outside of Metro Toronto.

The community which I call home is North Toronto, that part of Toronto which Fortune magazine last November rated as the best city in the world in which to live and work.

The concern of Lawrence Park Ratepayers' Association is that current value assessment, the method proposed in Bill 106 for taxing real property, will endanger the economic health of our city. First, however, it is necessary for us to establish that current value assessment, CVA, is essentially the same as market value assessment, MVA. The definition of the new term in this bill is essentially the same as section 19(2) of the existing Assessment Act, except that it underscores that valuation should be based on the "fee simple," which of course all appraisals address anyway if a property happens to be encumbered. So it wasn't really necessary to make that definition. Let's talk about CVA and MVA interchangeably, therefore.

Second, we want to make it clear that we also would like improvements to the existing method of assessing property, but to move to a market-value-based method would be unfair and does not make sense. We believe that the Conservative Party understood this when north and central Toronto voted the Conservatives in during the last provincial election. We were interested in two things that were talked about: reduce the deficit and lay off any introduction of MVA, as the NDP government did. So we were assured by promises and letters, such as the one from Al Leach which is attached to my submission. I'll give you a little time to look at it.

1510

Al Leach writes to Moore Park and Rosedale homeowners, "My party and I will never support the imposition of MVA in Metro Toronto." Also attached is a member of this committee's election flyer, Isabel Bassett. In it, Isabel writes: "The policy of the PC party has always been that we will never impose market value assessment on Toronto. We remain firm in that position."

When I asked Al Leach about this during a packed meeting in February, he tried to duck it by saying that actual value assessment, which was the terminology then, is different from market value assessment. Well, we in north and central Toronto are not naïve, and we are angry. We know that CVA equals AVA equals MVA.

Third, I want to say why MVA is not fair for the core of a large urban area like the GTA. This notion, MVA, which taxes the unrealized potential of residential properties, is not nearly as harmful for the core of smaller cities such as Kitchener or London. The selling prices in the core areas of smaller cities are generally no higher than the outlying areas for comparable properties because the travel distances and times are shorter and therefore do not put economic pressure on these areas. A much fairer method for taxing properties in Metro Toronto would be unit assessment, perhaps with some weighting for location factors.

Attached to my submission is an article from The Globe and Mail on the views of Jane Jacobs, that great North American authority on the life of urban areas. We are very fortunate that she came to us from New York City a number of decades ago. I will read some of the excerpts from that. I have underlined them so you can follow.

"Jane Jacobs...is opposed to market value assessment and calls the scheme 'nutty.'

"The reassessment proposal...would increase taxes for many businesses and residents in the city of Toronto while lowering them for many in Metro's suburban areas....the tax measure will leave Toronto with only two large population groups, the rich and the poor, because of the high levies it will impose on middle-class tenants and homeowners.

"'This tax will have the effect of making the city an impractical place, but not for the richest part of the population or the most assisted part of the population. This is a very bad situation for a city to get into; this is a kind of rot'....property values in cities are higher than elsewhere because these urban areas are 'efficient ways of doing everything. That's why people start businesses in the cities or go to cities.

"'The very concept of market value assessment, with its idea that somehow there is an unearned value in the city that must be gotten at, is wrong. It attacks the core of the value and the potentiality of the city'....market value assessment will undermine small businesses and the jobs they provide, Ms Jacobs said, saying that she had 'seen the dying away of small businesses in American cities, often because of exorbitant taxes.'"

Going on, I'd like to say that a market-value-based system of assessing property is inconsistent, it's unfair and makes no sense. In no other case are personal assets taxed on the basis of their value. For instance, our stocks and bonds, cars, jewellery and furniture are not appraised as to their value each year for a rate to be set so as to collect a yearly tax. Governments don't do this because this is a tax on unrealized wealth and not on yearly income, which is associated with a person's share in the GNP and therefore the ability and the obligation to pay taxes. Clearly, it is inconsistent and unfair to tax one's total assets of, say, $300,000 which is basically in a residence which a person owns, but not to tax another person's total assets of $300,000 which is basically in stocks, bonds and nice furniture in a residence which that person rents.

But wait: MVA doesn't just tax personal assets in real property, in other words, your equity. MVA, in assessing the value of the property, levies taxes on one's equity plus the mortgage. You pay interest on the mortgage and that mortgage yields a tax levy. Amazing. Imagine what the Ontario Securities Exchange would have to say if the government tried to levy a yearly tax on $300,000 worth of equities where one-half of the purchase was financed by a loan. Are you convinced?

In no other case that I can think of are people obligated to pay taxes for services received based on the value of their personal assets. For instance, a driver's license, vehicle registration or provincial taxes on a litre of gasoline has nothing to do with the current value of one's car and has everything to do with the use of one's car.

Even in the case of a residence, some services delivered to that residence in the form of hydro, water and heating fuel are based entirely on the amount used. Sure, it is more difficult to meter the use of services to a residence in the form of garbage, sewers and fire protection, but surely the delivery of these services has more to do with the size of the building than it does with location and hence the value of the land on which the building sits. Besides, land closer to the city core is cheaper to service anyway.

Unit assessment is based on the size of the building and land, information readily available in the existing data banks of municipalities. Any physical change to a building which requires a building permit is automatically fed into the data bank for a quick, inexpensive and stable assessment base, without the need for $60 million a year in salaries, plus $40 million in overhead, to hire tax collectors who prefer to call themselves assessors. What kind of Common Sense Revolution is this?

This is not in my written portion, but asking a professional assessor what he thinks of MVA is a little like asking the fox to lock the door on the chicken coop. Obviously these professional assessors want to save their jobs, and that's one of the reasons we're in this mess, because the government is listening to that aspect of the finance department.

Finally, I want to demonstrate the unfairness of MVA by way of photographs, which you will find on the last three pages of my submission. In each case, a modest house on a small property in north Toronto is compared with a much larger house with garages and family room in very attractive areas of Metropolitan Toronto. Property taxes are shown as levied in 1992 and as would have been levied in 1992 if the Ministry of Finance 1988 market value impact study had been implemented.

The modest houses in north Toronto would have experienced tax increases of 32% to 72%. The large modern houses would experience declines of 20% to 34%. In every case, this has resulted in the modest houses paying slightly higher taxes than the large modern houses. If you look carefully, you can see this in every case. You tell me where you'd like to live. I have been

to the areas. I took these pictures on the right-hand side. I can tell you these are lovely areas. They're much nicer areas than the areas on the left side of the page.

Is this fair? Does this make sense? Is this thing called MVA or CVA consistent with the payment of services for all other personal assets? Or is this Harris government going to surprise us with even more legislation which will levy a yearly tax on the current value of our cars, furniture and perhaps even our luggage, which we will have to pack eventually to leave for another province?

Thank you for this opportunity.

The Chair: Thank you. That leaves us with a little over a minute per caucus. We'll start with the opposition.

Mr Kwinter: Thanks for your presentation. I'm particularly attracted to the material delivered by the candidates in the last election. I'm sure they are delighted with it as well.

I'm particularly interested in what you showed, which is what I brought up with the previous deputant, and that deals with the property at 114 Wanless Avenue. That's a perfect example of what I was talking about. I don't know whether you were here.

1520

Mr Teichman: I didn't hear the last part, Mr Kwinter.

Mr Kwinter: What I'm saying is that on 114 Wanless Avenue you show a very modest house, by any standard, and the proposed taxes are going to go to $3,352. You show in comparison a very nice house. Certainly there's no comparison between the two in terms of what you get in the way of a house, yet the little, modest house is paying considerably more taxes.

I think that is a very dramatic illustration of what is happening. The value attributed to the Wanless Avenue house has to do with its geographic location, not with its intrinsic value, and that is the big problem when you deal with AVA, MVA or whatever it is. It imputes values that are totally unrealistic and totally dependent on extraneous pressures that have nothing to do with value in the house. Is that your feeling?

Mr Teichman: Exactly, yes. You've summarized it.

Mr Pouliot: Welcome, Mr Teichman. Thank you for the material. Is this a copy of — I can't believe what I have in front of me, and I need your help, sir. I take it that this was circulated during the last election campaign? Is that what it is?

Mr Teichman: Yes. Isabel Bassett's right here with us. I think she could vouch for that.

Mr Pouliot: You see, one of the problems I've had is that I've tried to decipher between market value assessment and actual value assessment, and even if you are a forensic expert, under the scrutiny of the finest microscope, people tell us that there is no bloody difference. I'm sorry if I'm so bold. But I know now, thanks to you. It says, "The policy of the PC Party," those people there, "has always been that we will never impose market value assessment on Toronto." That's what they said. What did Sheila Copps do?

Then it says — oh, this is a good one — "stopping the downloading of mandates." Talk about veiled, talk about manipulative. You're right, the revolution marches on, and if you stand in the way on this —

The Chair: Mr Pouliot, I hesitate to remind you that we only have a minute. I know you're enjoying this so much.

Mr Pouliot: I'm not enjoying this, sir. I'm not. No, no. I'd much rather be in the House trying to stop you people.

The Chair: My apologies.

Ms Bassett: Thanks for your presentation, although I suppose —

Mr Pouliot: Your name's on this.

Ms Bassett: I know. In reference to my name being on that, I just want to point out that we did say we wouldn't impose market value assessment. We said, if you read the next line, that we would review all alternatives to market value assessment. After much study and consultation with other people and other groups, we have come up with alternatives that may be fairly similar in some ways, but they are different in assessment differences and on the tax side.

If you look at the assessment differences, the Ontario fair assessment system is going to update assessments annually. The assessments are going to be based on a three-year average to counter fluctuation of property values, whereas market value last time was going to be based on 1988 values, which were extraordinarily high. Under the OFAS, assessments will equal the current value of the property so taxpayers can easily understand them. Taxpayers confront me daily saying, "Why am I, on one street in Toronto, paying $3,000 more in tax on the same size of house, bought the same year, as my friend's house down the road that is the same size?"

Mr Teichman: I understand fully what you're trying to say, Isabel.

Ms Bassett: I just want to point out the tax differences, that the proposed new system will give municipalities the flexibility to set different tax rates on different classes of properties. That allows a totally different system within the broad guidelines laid out, and that is completely new.

Mr Teichman: That can be done in a unit assessment policy basis. What I am talking about here is market value assessment, which is the same as current value assessment. Market value assessment is unfair, inconsistent, doesn't make sense, and that is what I'm trying to talk about here.

I know you're talking about updating every year. Market value assessment, as it now occurs, is every four years. Don't forget that 70% of the municipalities do not have market value assessment, or at least they have not updated it, because they know it's not very good. It's not just in Toronto, but it's also in Kingston. I have a similar study for Kingston to what I have just given to you. We're talking to people in Kingston and they're doing the same kind of comparative analysis of houses in two different parts of Kingston which would result in very unfair taxation between the central core and the outside area.

What I'm trying to let you people know is that market value assessment is extremely unfair, and I think this Conservative government understood this. Certainly when I voted for the Conservative government in the last election I understood that you were going to do two

things: You were going to try to reduce the deficit and you certainly were not going to impose market value assessment on us. I thought you'd learned something from the lesson the NDP learned. We went after them very hard four years ago, and I'm sure you'll remember that.

The Chair: I thank you, Mr Teichman, for appearing before the committee today.

FIONA NELSON

The Chair: We now welcome Ms Fiona Nelson. Welcome to the standing committee. We have 20 minutes together.

Ms Fiona Nelson: Mr Chair, ladies and gentlemen, I am not a tax expert and I would never present myself as one, but I am a passionate and long-standing lover of local government.

To give you a little bit of an idea, since 1969 I've been elected nine times to represent the ward presently called Midtown on the Toronto Board of Education. During that time I've also served on the Metro school board; the Toronto planning board, during the time of the central area plan and all the interesting things that flowed from that; the Toronto historical board; the Toronto board of health; the Toronto Food Policy Council; and, for the last 10 years, the Assessment Reform Working Group of Toronto city council. I say this simply to let you know that I've been immersed in local government for quite a while.

I've also served at all levels of school board associations up to the national level. Premier Peterson appointed me to his Premier's Council in 1988, provincial Treasurer Laughren appointed me to the Fair Tax Commission as a commissioner, and I've also chaired a provincial committee on food and agriculture. These are things I've done in the last 10 years.

I'm not trying to blow my own horn here, but simply to let you know that I've been involved in a lot of different aspects of local government and I care about what happens to my city, to my farm and to my province.

The study of local government and the ways in which we fund it has gone on for a very long time, and most of the studies have in fact taken quite a while. The Smith committee, I believe, took about five years. The implementation of reforms has also taken a long time each time it's been undertaken, simply because it is such a very complicated and far-reaching way of doing business and the whole matter of local government is of such significance to the citizens.

I have given you a tiny little brief which is just some points that I'm going to raise today. You will, in case you think you're getting off lightly, also get an appendix which consists of three presentations I have made in recent times, one of which was a commentary on the local government aspects of the Fair Tax Commission, one a submission to the Golden commission and another to the Burnham hearings. They all focus very much on the significance of local government and of its funding, so I would recommend them to your attention. They're somewhat longer than this submission, however.

The things I wanted to bring to your attention today are that since the Goldenberg commission and the Smith committee we've known that things were troublesome in the area of financing of local government. Several attempts have been made to do things and they have all foundered. I don't think they have foundered because of ill will or incompetence, but simply because the problems are so overwhelming.

1530

Therefore, it seems to me it's a very important thing not to proceed as hastily, at this time, as you are, especially since you are proceeding in concert with so many other initiatives, many of which also impinge very much on local government and its services. It seems to me that two of the biggest features of local government, that is, the uploading of education and the downloading of the social services, aren't even before you yet and they are a very significant part of this picture.

So it would seem to me very sensible to think about how those three fit together. At the moment we haven't the slightest idea how they will fit together since we have neither impact studies nor white papers giving us any help on that.

The Crombie commission had a very short time line, and even though they struggled to come up with reports, it doesn't appear that they've had much impact on what the government is doing and that troubles me just a little bit. One of the proverbs on which I was raised was that haste makes waste. I think in this instance it will make an immense amount of waste simply because we don't have any idea how all the pieces of the puzzle fit together.

I don't know how many of you as children played a nasty trick on your friends called "52 pick-up." That is the feeling many of us, as citizens in the province, are feeling at the moment, that everything has been thrown up in the air and we haven't the slightest idea where it's going to land or what kind of a hand we're going to get out of it.

I am convinced that what should have happened is that we should have presented a white paper on general principles, that we should have had a lot of public hearings to modify the principles and also to work out the technical bugs. I'm sure you heard this morning from the city of Toronto just what some of the technical bugs are. We certainly heard about them at the Assessment Reform Working Group at city hall.

It also seems to me, based on experience elsewhere, particularly in Winnipeg, that it should have been a very long implementation period, perhaps not starting until the turn of the century so that we were sure we had it properly worked out. In Winnipeg, as I'm sure you've already heard, they brought it in very fast and then had an enormously difficult time pulling themselves together afterwards from the mess they had made.

This Bill 106 has been hastily drafted and it seems to have left local governments and treasuries to work out some of the really quite significant problems of implementation. That seems to me tailor-made for trouble. Although the purpose may be some kind of equity or appearance of equity across the province, I think it will work in a different way, and I would imagine one of the ways that's most clearly demonstrated is the fact that the

government itself is assuming there will be another 600,000 appeals. As you know, most of the commercial and industrial sector is already under appeal and has caused immense problems with the revenue base. We've lost hundreds of millions of dollars in Metro alone through successful commercial appeals. It does seem to me a great pity.

Also, it seems that for a very long time property tax has been an extremely stable form of revenue, very predictable and easy to manage. For one thing, it's very hard for people to evade property tax. They can't move the property to a tax haven. They can't devalue the property, really, unless they do it some damage or appeal their taxes successfully. So it's been possible for municipalities to predict their revenue pretty clearly.

At the same time the biggest chunk of expenditure has also been very predictable, and that's been education costs. What you have coming down the road in addition to the change in assessment is the downloading of some extremely unpredictable costs at the same time as your revenue base is going to be extremely unpredictable. I think that's going to make the whole business of local governance and the services people depend on very difficult.

I've lived in the same house for almost 42 years. In fact the house has never been in any hands except my husband's family's and now ours. It was built in 1936 and the cost was $6,000. It's a very ordinary, three-bedroom house on an ordinary 30-foot by about 100-foot lot in downtown Toronto.

The craziness in the late 1980s when properties went absolutely through the roof had a real estate man offering me $600,000 for this very ordinary little house. I said to him, "That is quite mad; it means my son and people his age will never be able to own property in this city or have a house," and he said: "Oh, we don't want the house. We want the land. We'd knock the house down."

All that tells me is that as long as we base the assessment system on market values, we have a crazy system. It's as close to Bre-X as I want to get. Oh, I thought we'd lost you for a moment there.

Mr Pouliot: No, Bre-X was there first, madame.

Ms Nelson: I'm sure. But the point is that the instability of market value, actual value or current value is what I'm attempting to demonstrate. The problem is that if we were looking at value in current use, we would not have the speculative aspect to the assessment system, but that's not what we're looking at. That's what Mr Crombie recommended, but that's not what we're looking at. It worries me very much that the cities are going to be very destabilized, the countryside is going to be very destabilized, because we are not taking the speculative aspect out of the assessment system.

It doesn't even achieve a level playing field for business, because what is going to happen is that the present higher business taxes on the large businesses and office towers are being rapidly reduced by appeals and are going to be further reduced by the assessment system, at the same time as little businesses and commercial strips are going to be priced out of business by their taxes. It's an unfortunate thing to happen when we know that the biggest creators of jobs in this society at the moment are small businesses and that they're going to be put in such jeopardy.

We have to be very concerned about what this destabilization is going to do. You can drive down most main streets these days and find plenty of small businesses already up for sale or vacant, and adding to that is not going to be at all helpful.

The other thing is that the business occupancy tax abolition is going to mean that the real pressure is going to come on small businesses and strip malls. The absorption of that amount of revenue, which I think in the province is about $1 billion, is either going to raise the property taxes on businesses as well, or part of it is going to have to be absorbed by the residential sector, and in either case I think will have unfortunate results.

I cannot imagine how residential taxpayers in this province are going to escape significantly raised taxes from the variety of moves that are taking place all at once. It seems to me that the cost of annual reassessment and the significant cost of appeals is going to have a very bad effect.

It's useful to consider the reliance we have on property tax. It seems to be restricted to the countries that are former colonies of Britain. In the rest of the developed world, property tax is relied on either very much less or not at all. They depend more on wealth taxes and inheritance taxes. But in the places on the map that all used to be pink when I was at school, with Neilson's chocolate bars all around the border —

Mr Spina: I'm glad you said that. I thought it was the NDP.

The Chair: Mr Spina.

Ms Nelson: That's quite all right.

You may recall those maps with huge chunks of pink all over the world. They're the ones that rely on property tax. Very often when people say we're terribly overtaxed, part of it is because they're thinking of their property taxes. In fact, that's the only tax for which you actually get a bill. Sales taxes get nibbled off bit by bit every day and I doubt if anybody could give you the total in a year. Income tax is often taken off at the source, and when you actually submit your forms at the end of this month, you may be in for a rebate. In fact, that's most likely with most people.

1540

With property tax you're getting a bill and you have to pay it. There's no way of evading it. There's no way of reducing it. People can often tell you to the dollar what their property taxes are. When we hear people saying they're overtaxed, it's because of our very heavy reliance on property taxes. With the proposed downloading of social services to property taxes, I think that's going to be even more significant.

It's not just an urban problem. As a farm owner, I've not claimed the farm tax rebate, but I do know that rural municipalities count on that farm tax rebate to do some things they couldn't otherwise afford because they know the farmers aren't going to be hit as hard as their tax bill actually makes it look because they're going to get back the rebate. That is sort of an after-the-fact subsidy of rural municipalities. I think this is going to be extremely difficult for rural municipalities that have on the whole very poor tax bases.

It worries me significantly also because, as a farmer, I know farm land is not replaceable. Good farm land occurs where it's warmer, the season is longer, close to municipalities and urban areas, where the land is level and where it's fertile. You can't just move a farm and expect the same yields. I'm very worried about the speculative value of the farms that are close to urban areas with these changes in the assessment system.

I would urge you to think about what is happening here: the implicit pooling by having a province-wide commercial and industrial tax, the possible pooling of some sort that will occur with the downloading of welfare costs, and the general unhappiness of the population. There will be virtually no one who will be happy with this system, and because there is no transition money involved in this, municipalities, even though there is a transition period stated of about eight years, will be forced to do it faster simply because the losers, the people whose taxes are going up, will be complaining and appealing, and the people who are actually going to get lower taxes will want it right away, so municipalities will have to implement it a lot faster.

I think this makes a very dicey, very unstable situation and one I wouldn't want to have to pick up the pieces from. It seems to me it's no way to deal with what amounts to the contract between the province and its municipalities. It seems to me that the only answer from the point of view of quite a few people I've talked to is for you to significantly slow down the process, perhaps withdraw the bill, rethink it, put out a white paper, wait until you see what the download-upload situation is going to produce, and then implement it farther down the road when you've got a better feel for what is happening. It seems to me that without impact studies and the other pieces of the puzzle, we're going into a situation that is very dangerous.

I presume I am not the only person saying this to you. I do hope that you will be able to pay some heed to this and bring in a system that will actually work for the benefit of the people. I know you told the earlier deputant you've looked at other forms and you've decided this is the best one. I suspect if you had more time to look at the other forms of property assessment, you might come up with some different answers.

That's my submission. You will be getting the three appendices which I hope you will find useful. I think I've got a couple of minutes left, if you have any questions.

The Chair: Not by my watch.

Ms Nelson: No?

The Chair: Your enthusiastic presentation has been most appreciated by the committee. Thank you.

Ms Nelson: Oh, all right. I guess I've got a bad stopwatch.

The Chair: I have 3:45 on my watch. Thank you very much.

REGIONAL MUNICIPALITY OF HAMILTON-WENTWORTH

The Chair: Our next deputant is the regional municipality of Halton-Wentworth.

Mr Marvin Caplan: Oh.

The Chair: Hamilton-Wentworth.

Mr Caplan: Actually, that's quite good. The gentleman who is going to be joining me is the former CAO of Halton, but we were smart enough to grab him.

The Chair: You're Marvin Caplan?

Mr Caplan: Yes, and my associate is Michael Fenn, who is our CAO.

The Chair: Welcome to the committee.

Mr Caplan: Thank you for having us here. I might start by talking just for a moment about partnership. The chairman of our health and social services committee, Ted McMeechan, often says to me, "None of us is as smart as all of us." I'd like to talk to you a bit about partnership and about assessment and how it affects us.

One of the things you might wish to know is that in Hamilton I have the honour of representing ward 1, which is the Westdale area, which will probably be the area that actual value assessment impacts on most, in the most affluent, older areas of our city. We haven't had a reassessment since 1974, so some of the things that people have been saying to you here are going to impact upon me directly as a politician at the local level. However, as I knock on doors, I assure you I will be explaining very carefully that actual value assessment wasn't my idea this year.

I have to say — I hope there's no one here from the Hamilton Spectator — that we understand that there's a rationale for actual value assessment: to make a level playing field across the province. One of the things we're talking about is competitive advantages and disadvantages among our communities. We also understand the need not to bonus from one community to another and to try and reflect that in what we're doing in our tax base.

I have a little bit to say from a personal point of view. I was the founder of one of our first business improvement areas in Hamilton, the downtown Hamilton BIA. That BIA and our downtown have been through quite a few changes and things are not a lot better. There are some difficulties with the legislation as it's proposed in that property owners, particularly when they're absentee, may not see some of the benefits of belonging to a business improvement area in the same way as the storekeeper on the street, who's choosing by and large to increase his taxes. It is the store owner who decides as a member of the BIA to pay more in taxes, which is rather a novel idea, I think.

In your deliberations, I believe that's an important consideration, and I don't know how to solve it. Someone told me that when I was elected to public office a little fairy would come along, tap me on the shoulder and I would immediately know all the answers to all the questions. It hasn't happened yet.

One of the other issues that I wish to talk about very briefly is the need to have a front-end-loaded, eight-year phase-in. It's going to be very difficult for us to negotiate at a civic level, at a municipal level, the length of time we're going to need to make sure this is fair. Everyone who is going to get a tax increase is going to complain. Everyone who doesn't get a tax decrease quickly is going to complain that they've been overpaying for years.

I also want to talk to you a little about what happens next. In fact, that's the bulk of my presentation, because I believe, as the previous speaker mentioned, it is import-

ant to understand the reason for going into actual value assessment. The reason we need municipal taxes is to pay for municipal services. Those municipal services that we now have and that we now have to pay for we understand and are prepared to cope with at the municipal level.

The legislation before you or a piece of the legislation that's coming down also talks about who's going to pay for what. What you are asking us to do with actual value assessment as we change the taxes in our community is to increase the taxes to the regional taxpayers of Hamilton-Wentworth by $121 million.

There are two major factors in the provincial downloading which will impact on us. We, unlike some other regions, support an older and less affluent population. We require a higher proportion of social services, health and housing. We, unlike younger suburban regions, attract a disproportionate share of social assistance and public health clients, particularly in Hamilton, where we are particularly good at it. Aging populations also tend to migrate to urban centres that are better served with the amenities and housing types required by the elderly. We think the downloading of social services, health and housing could result in an increased financial burden to the region of $262.5 million.

1550

In general welfare assistance, GWA, when the recent recession hit, our welfare caseload tripled. This caused, even at a 20% cost, a near crisis for our budgets. If you will go back a bit in history, you will recall that during the Depression several communities went bankrupt, and the cause of that, I'm told by the social historians, was the cost of welfare and the cost of social assistance borne by municipalities.

If we go to a 50-50 cost-sharing instead of 80-20, we have to increase the costs for our taxpayers by $33 million. The 50-50 sharing of family benefits with the region, which we currently do not provide any funding for, will cost us $95 million, and approximately one half of that is associated with the permanently disabled on family benefit allowance.

I must tell you that one of the reasons most of us got into government was to try and help people, was to try and make the world a little better place. I'm trying to be a little emotional here, but it's emotional reasons that cause many of us to get involved in this business. It's the disadvantaged, the people who don't have someone to speak for them, who are a particular concern of mine. I don't know if I would want to have actual value assessment paying for the care of someone who's disabled. I'll come to that in a moment.

Putting housing in the municipal sector will result in a cost of somewhere between $40 million and $60 million in our region. Removing educational taxes from the residential tax bill in our community will not be nearly enough to offset the downloaded obligations to our residential taxpayer. We get a lower proportion of tax revenues from the residential sector than the provincial average.

The positive results of our strong commercial-industrial sector: If you download the costs of social benefits to our community, you will put our industrial sector, our commercial sector at a disadvantage. Dollars have no conscience. The businesses in our community will be attracted to communities who do not bear the burden you are proposing to have us share with you.

I have some recommendations that we're going to make:

That social housing continue to be funded 100% by the provincial and federal governments.

That the drug benefit plan, homes for special care, long-term care, permanently disabled, FBA and the teaching health units be and continue to be 100% provincially funded.

That we're prepared to continue the 80-20 split for GWA, single-parent, family benefits allowance, child care and health care, but that any municipal financial obligations for human services should be capped.

That you should protect those areas of our community against economic downturns.

That you should commit yourself through legislation to refrain from any unfunded mandates in the provision of services.

Among the choices you have, if you have to download some of these things to us, are capital costs for education.

If I can speak a bit more extemporaneously for a moment, it seems to me that one of the things we do in government is that we try to make things more fair. We try to balance competing needs. What's happening with the downloading is that you are making it more difficult for those communities like Hamilton-Wentworth, that are somewhat poorer, somewhat older and somewhat more industrial, to compete. When that happened in other jurisdictions, downtown Buffalo and downtown Detroit resulted. We have to find ways of sharing of some of those loads across wider sectors of the population.

I don't believe anyone in this room or anyone in this Legislature wishes to create a permanent underclass, and certainly you don't wish to create it in my town. I don't believe that's the intent of anyone. But knowing that everything works out in average doesn't help us.

The statistics you have in front of you I think are fairly clear. I don't need to go through the whole dog-and-pony show. I'm sure your staff is going to very clearly tell you the kinds of impacts some of these things are going to have.

I've brought somebody who knows the answers to the tough questions, if they're technical.

The Chair: We'll start our questions then, about three minutes per caucus.

Mr Pouliot: An excellent presentation. This is not a question, but we'll sleep better tonight knowing, mathematics being what they are, that Frank Stronach, the chairman of Magna International, will be getting in four instalments a 30% reduction in his personal income tax at the provincial level. That's the reality of the day. He made $38 million last year, and some of the people you've identified, so this is the sense of justice portrayed by the government.

Some of your taxpayers are expecting a 10% reduction in their property tax by the year 2000. Like most of us here, if not all of us, they read newspapers, and when the Premier of the province says, "By the year 2000 you at the municipal level should be able to deliver a 10% decrease in property taxes" — and the year 2000 is three

years down the road. Please speak with certainty. Do you see yourself in a position where you'll be able to deliver a 10% decrease to your property taxpayers?

Mr Caplan: The obvious answer is, of course not, in our community. My understanding of the numbers is that the only communities that will be able to deliver a tax decrease are those communities that are now the fastest-growing, youngest and most affluent.

Mr Pouliot: As you are well aware, this is not revenue-neutral. This is not an exchange of responsibilities.

Mr Caplan: Forgive me, but the total dollars today may or may not be revenue-neutral; some of these numbers are very complicated, as you know. But what I do know is that it's not fair. Whether the total dollars across the province will or will not work out, the effect on the community I represent is devastating.

Mr Pouliot: Are you aware that through Bill 106 the banks are getting a benefit, that if you occupy an office in a bank tower you will not have to pay, for your keep, the same amount of money?

Mr Caplan: One of the difficulties we are having at the municipal level — and again we talk about partnership and the need to be at the table — is that we don't, in all honesty, know what the ramifications are of some of the changes in property tax from business tax. While I know you are making a political statement, from the practical point of view the difficulty is that we don't know. It's very difficult to budget on a daily basis or a monthly basis or a weekly basis if we don't have the information.

Mr Pouliot: Do you fear an erosion of the middle class?

Mr Caplan: I believe you're asking me a social question, which I'm more than happy to discuss with you, but I don't believe that's part of my presentation and is beyond my mandate, sir.

Ms Bassett: Thanks for your presentation. I just want to point out, as you know, that the province is currently involved in discussions with AMO as to the so-called exchange of services.

Mr Caplan: I understand they're making a presentation tomorrow morning. My difficulty is that AMO may not speak to you with the same passion, and I believe that some of the give and take within AMO is similar.

Ms Bassett: They are negotiating, so it's still very much open, and we're certainly listening to what you say. I want to add, though, that we do have the $1-billion fund, plus the $700-million social assistance reserve and the $800-million capital and operating fund that is there to help municipalities in need, one way or another. It's not as if you're being cut adrift out there. We're very much aware of you and your problems and we're working to solve the situation.

Mr Caplan: I understand that, but I also have some perplexity in that we have no idea how the amounts of money you're talking about will be allocated. We don't know where and how those moneys will be used.

What we're asking for is that if in fact we are your partners in this, you as the closest representative of the government, we need to be at the table with you, bringing down a suggestion like this. I don't wish to be political, but it's difficult.

Ms Bassett: Of course, and that's the kind of negotiation we're already involved in. I want that made very clear.

1600

Mr Kwinter: Thank you, Mr Caplan. As always, it's a pleasure to hear your presentation. Your impact analysis is fairly similar to what most municipalities have come up with. There are different numbers, but the basic analysis is that in most cases it's going to cost them far more money than they're going to save with the switch from education to the things that have been downloaded on them. I notice that you've left "unknown" the contribution to the social service fund, GO Transit, transit and the provincial highways. Surely you must have some ballpark figure of what you think it might be.

Mr Caplan: I will tell you, Mr Kwinter, that I have with me — I don't think he's going to get a raise, but I've been involved in politics, meeting people, and in business for a long time, and I have yet to meet a brighter person. When he tells me he has little idea and doesn't understand what the impact of this is going to be, and our people tell me the same thing, I believe him. No, we don't know.

I would, however, take you back a second. I think it's important to be fair. If I was sitting here from Halton, I'd be asking you to leave this exactly the way it was. Halton's a big winner. The wealthier, younger and fastest-growing communities, those who need help the least, are helped the most by the downloading of social services.

As far as GO and some of these other services, we don't know. Where does the track start and stop being part of my municipality? When does GO Transit infrastructure become part of my responsibility and when doesn't it? You haven't told us. I have no idea. When I'm writing my next campaign brochure, I'm not going to be telling people, "I'm going to keep your taxes down," because I don't know how. I also don't know what I'm dealing with.

Mr Kwinter: The reason I was trying to get that number is that you've got your $121.5-million increase. I think it's a fair assumption that that is going to go higher, to some degree.

Mr Caplan: Yes. The point is that it's not going to get better. What you've said to us in effect is that you've got bad news and worse news.

Mr Kwinter: Okay. As a politician, what do you and your colleagues do to deal with this? Is it is a matter of increasing taxes or cutting service or both?

Mr Caplan: I believe we are now, in my community — I can't speak for my colleagues. I have no choice in my mind. We've been fortunate enough, through the dedication of some superb bureaucrats in our community, to keep our taxes flat or very low for the last several years, but I believe we've cut into our reserves. If we had this legislation down and we had the same kind of recession we experienced in 1989-90, our community could not cope with it. I believe we are already behind in raising taxes, just with the possibility of this coming. In my opinion, we don't have enough reserves, so we'll have to raise taxes.

The Chair: Thank you very much, Mr Caplan. We appreciate your presentation and the time you took today.

WESTIN HARBOUR CASTLE

The Chair: We now welcome the Westin Harbour Castle. Mr Abji, welcome to the committee.

Mr Minaz Abji: My name again is Minaz Abji. I'm the managing director of the Westin Harbour Castle and I also supervise Westin's operations in eastern Canada. My hotel would be classified as a large operation catering for the most part to the business, leisure and convention trade.

I did not give you any handouts because I only found out about this yesterday and I was in Seattle; I came on an earlier flight to make this meeting. I'm sorry that I don't have things prepared for you.

We have 980 rooms, as you know, some 70,000 square feet of meeting space, and we employ 550 full-time equivalents, which is 750 people. Like every other hotel within Metropolitan Toronto, we have been severely impacted by the inequitable level of assessment on our operation. PKF said in their report, if you already have not heard, that the excessive level of realty and business taxation are threatening the economic viability of the hotel industry in Metropolitan Toronto. This is a true statement, both for our hotel and the industry in Metropolitan Toronto.

Tax arrears and receiverships have significantly contributed to the ongoing problems of the industry, whereby we have bankruptcies and people buying hotels at a lower price than what it cost to build them, and then they charge lower rates and they depress the average rates. When we compete in the marketplace, we cannot raise our prices. We have high taxation. We lose money.

Our average rate in our hotel, this year, will surpass 1988. This is the first time we will surpass that rate, and we have been putting cash into the hotel. We put about $3 million just to keep the hotel running as well as do the minimum capital improvements every year.

It is my understanding that Bill 106, once passed, will provide hotels fair property tax treatment, that is, that we will be assessed at the same level of assessment as other commercial properties. I would also like to address a number of other important issues: the variable tax rates, which are crucial to the success of this legislation; and the provision enabling the minister to create new classes upon request from a municipality.

The legislation contains clause 2(2)(e), which causes the industry real problems, and we suggest the government agree to amend it. It would allow the minister, upon request from the municipalities, to prescribe new classes of property which could be taxed at a different rate. We understand that the intent of this section is to enable the minister to support the objectives of the municipalities, but we think our industry has been victimized for the last 25 years by such discriminatory action and cannot agree that allowing for the possibility of such action to occur in the future makes any sense for us.

Surely these future objectives of the municipalities are worthwhile, and in the public interest the government of the day then should have no trouble introducing legislation. But allowing for a simple ministerial action will not guarantee an open process, and such action, if implemented, in our view creates unneeded pressure on the minister and would be unfair to our industry.

History clearly demonstrates that business, when placed against residents, cannot depend on the municipal levels of government to ensure that it receives fair and equitable treatment, be it for property tax or other areas, and we have seen that in our industry.

Bill 106 is about providing fair and equitable property tax treatment for everyone. We urge you not to provide the means to cancel this principle in the same bill. If my hotel and others are to receive the benefits of property tax reform — lower taxes — then the establishment of the new variable tax rates is critical to meeting this objective. The finance minister recognized that the hotels in Metro Toronto were disadvantaged by the property taxes that were higher than those of the commercial sector and would take action to address this disadvantage.

I and my colleagues are very concerned that all this could lead to the municipality being able to thwart this commitment by way of its ability to set these rates. Toronto city council has been supportive in having hotels being treated fairly. However, if it comes to residents and property taxes, we do not stand a chance. Therefore, I urge you to ensure that in setting these ranges it is done so that the benefits of the property tax reform flow through to us in the form of lower taxes.

It cannot be stressed too much: Lower property taxes are the key to restoring economic health to our industry. Property taxes are my largest uncontrollable expense. I open the door, $6 million. I can accept paying my fair share, but I need the revenue from lower taxes to reinvest in my operation.

1610

I would like to state our support for the elimination of the business occupancy tax. It was unfair in its application, and given that millions of dollars went uncollected yearly, it seems reasonable to drop it. I fully expect the municipality to require less money, given that it will now collect 100% of its assessment. We do have a concern that if the BOT is still part of the assessment — hotels currently are rated at 30%, and if it comes back, we hope our assessment is not higher than 30%.

As with the variable tax rates, I urge the government to ensure that in all likelihood, this amount comes back on to the property tax base. Municipalities must do it in a fair matter, and by that I mean they should not be able to download it at all, or the majority, on one class or a class within a class. It must be applied in a fair and equitable manner across the board. I don't mind paying my fair share, but after 25 years of subsidization, we have had enough.

I also want to add endorsement for the three-year rolling average for assessment purposes. Once the new system becomes fully operational, a blended average will be fairer for all the stakeholders. A three-year blended average should eliminate the spikes and result in a fair assessment, which will hopefully take into account the business cycle which we in the hotel business do experience.

Before closing, I want to briefly raise the phase-in provision. We have been waiting for 25 years for fair

property tax treatment. Waiting for another eight years to receive the full benefits is very tough for us to accept, especially with the possibility of the new class creation or subclass creation.

In summary, Bill 106 begins the process of providing my hotel and those of my peers with fair property tax treatment. It is unfortunate that we've had to wait so many years to be treated fairly. Please take the necessary steps to ensure that fairness will be provided us in this bill and not be thwarted by a variable tax rate process or by allowing new classes to be created in a relatively easy way. Thank you very much.

The Chair: We have about three minutes per caucus. We'll start with the government caucus.

Ms Bassett: Thank you very much for coming back from Seattle.

Mr Abji: The weather was much warmer there.

Ms Bassett: I do understand that hotels have laboured under an unfair system for many, many years, as your colleague Mr Seiling has pointed out on many occasions. It has got through to us. We're aware of that.

The bill ensures that you are protected in so far as it's up to the minister to say whether the municipalities can set a new — you know, that you can be taxed differently. I feel that you will be protected. Do you feel assured?

Mr Abji: If you have a subsection that will create separate classes, we feel that if you leave it to the municipalities, we will be taxed unfairly again, like we have been.

Ms Bassett: But if the minister were to reserve that right for himself or herself, whoever that would be in the future?

Mr Abji: Our position is still that that should go through as legislation and we should not have that, because governments do change. Very clearly, very soon everything could be back to where it was and be unfair again.

Ms Bassett: So how would like it?

Mr Abji: We would like it to go through legislation and not that way; as a new tax situation versus just change because of a request.

Mr Phillips: One of the challenges we face is that we only see a part of this bill; I gather there is more legislation coming in the spring or later. We won't get a chance to address your concerns, because right now the bill doesn't permit another class, but the minister has indicated he's planning to bring that forward. So we're dealing with an unusual bill here and being asked to approve sort of a wrapped-up box. We can't take the wrapping off and look at it, just sort of approve it.

Just to try and help us out a little bit on the impact of this bill, if they don't go ahead with the second class, would this in your mind a 5% reduction on your property tax, a 10% reduction?

Mr Abji: Currently, hotels are assessed at 8.2% and commercial establishments, I believe, are rated at 4.6%.

Mr Phillips: So you would think it could reduce your taxes by —

Mr Abji: Half.

Mr Phillips: You indicated that you're paying $6 million a year?

Mr Abji: Yes, overall our hotel is.

Mr Phillips: Right. So for the industry, have you any idea how much this would help the industry in total?

Mr Abji: How it helps the industry is that owners of hotel properties are not putting money back in, which affects jobs in the city and affects a lot of money flowing back in the economy. It doesn't happen. So our owners put the minimum amount of capital in.

Mr Phillips: I meant that for your hotel it's $3 million but for the hotel industry —

Mr Abji: I don't have the figure.

Mr Phillips: Would it be $30 million, do you think?

Mr Abji: I don't have the number.

Mr Phillips: One of the challenges here is that industries like yourself are going to benefit fairly substantially.

Mr Abji: Because we've been unfairly taxed before.

Mr Phillips: I understand that. It's just that not many people willingly say they've been undertaxed, and in the end your $3 million for the municipality of Metro Toronto, somebody else is going to have to pay that. I don't see there being a reduction in the revenue the municipality requires.

Anyway in your mind, roughly, the bill would cut your taxes in half.

Mr Abji: Right. It will be a fairer system. Everybody would pay a fairer tax.

Mr Phillips: Your current business occupancy tax, you indicated, is about 30%, and I guess your savings come by cutting in half your assessed value. You've indicated that you're concerned about phasing. Maybe I don't understand the bill well enough, but there is an eight-year phase-in. I know there is for tax increases, but there is for tax decreases as well, and you would like to see that changed to a much shorter time frame, I gather.

Mr Abji: Yes.

Mr Pouliot: Thank you again for having made the valiant effort to come from Seattle to present and defend what you think is just and right.

My colleague has talked about the wrapped-up box. Please trust me on this matter: It's more like a bag of snakes. It is the complexities, and we with the opposition unfortunately do not have access to it. You've expressed a fear. I know that you have been victimized for 25 years and you're not too comfortable in waiting for an additional eight years of that purgatory, that victimization. So you'll be anxious; you'll be right there at the altar saying, "Show me the money" — right? — "or take less."

I just want to test your understanding of the way things work around here.

You see, the province gives you a tax break, right? It restores a sentiment of justice. So you go from $6 million to $3 million, but you fear that if the province does not protect you, would the city of Toronto? Because those three million bucks have got to come from somewhere, no question. So the city of Toronto, with its new responsibilities, will gather to descend on Harbour Castle and try to pick it, right?

1620

I've been here 12 years and during that time we've had, courtesy of the taxpayers, sort of turnstiles of government. So unless you have protection by legislation — you see, we can change regulations without going to the Legislature. They've cut the welfare recipients, the

less fortunate, that's the first thing they did when they came in, 21.6%. They didn't have to go to the Legislative Assembly to do that. They said: "Okay, they're the downtrodden and low-lifes. Out they go, 21.6%." But if it was part of the legislation, surely if a new administration was intended, they would simply open the legislation. The sponsor, the minister would call the bill and amend it and you'd be right back to square one. But you would still prefer to see it in the legislation. At least you would have partial protection. Is that right?

Mr Abji: Yes, we would.

Mr Pouliot: How's business at Harbour Castle lately?

Mr Abji: Business? It's similar to last year.

Mr Pouliot: Occupancy rate is okay?

Mr Abji: It would be similar to last year.

Mr Pouliot: Do you have a contract with your 550 full-time-equivalents, collective agreement with them?

Mr Abji: Yes, we do.

Mr Pouliot: No problem with the collective agreement?

Mr Abji: No.

Mr Pouliot: Reasonable people, hard workers?

The Chair: I think our time has expired as we wander away from Bill 106. Thank you very much, Mr Abji.

Mr Abji: I don't know where I was going there, but thank you for saving me.

The Chair: I wasn't sure either, but we were getting way off track, I think. Thank you very much for attending today and taking the time to present to us.

FAIR RENTAL POLICY ORGANIZATION OF ONTARIO

The Chair: We now have the Fair Rental Policy Organization of Ontario, Mr Dewan. Welcome to the committee, sir.

Mr Philip Dewan: My name is Philip Dewan. I'm the president and CEO of the Fair Rental Policy Organization of Ontario, which is the largest landlord group in the province. We represent over 900 members who range from the very smallest to the very largest property owners in Ontario.

Many of our members have strong views on a number of the issues that are covered in this legislation, including actual value assessment, business occupancy tax and tax assessment policies. However, all those issues pale for our members and for our customers, the tenants, in comparison to the importance of the property tax rates for multiresidential housing. Today I'm going to confine my remarks just to that specific issue as it's dealt with in Bill 106.

In summary, our view is that we're quite disappointed that the government has backed away from the real challenge of ensuring fair tax treatment for tenants by relying on placing the onus entirely on individual municipalities to decide whether or not they want to redress the obvious inequities in the tax system. I think there's been a real opportunity for leadership that is lost here and I hope the committee will consider trying to redress that.

When the current Conservative government came to office, it inherited a very clear need to reform the property tax system. There's pretty widespread agreement on the kinds of problems, and many of the reports, including the massive volume of the Fair Tax Commission that was commissioned by the previous government and the subsequent documents that came from Anne Golden and David Crombie, all highlighted the perverse nature of the taxation of multiresidential housing.

I think you've heard the numbers before and I don't need to go through them in detail, but in essence across the province we're looking at tax rates for the multiresidential class — that is apartment buildings with seven or more units — that are between two and five times higher than for smaller buildings and single-family homes and condominiums.

The disparity between the multiresidential class and single-family class is probably the largest single inequity in our entire tax system. By failing to address this issue, I believe that Bill 106 is doing a grave disservice to everyone.

With my remarks today I've handed out one of our previous publications, Property Tax and Tenants, which we produced several years ago when we were trying to get the various levels of government to pay attention to this issue, and I think the facts in there are still quite relevant. I'm not going to go through it in great detail. I'll just sum up a couple of the major points that we're trying to make.

Tenants are now paying property taxes which are, on average, about two to two and a half times those of homeowners in the province and almost five times higher in the city of Toronto. At the same time, the average household income among tenants is just over half that of homeowners, meaning the regressive nature of the system is even worse than it appears on the surface.

As well, tenants on average have smaller families than homeowners and apartment buildings are less costly to service than lower-density housing, which if anything would present the case for lower rates rather than higher rates.

The property tax inequity forces rents higher than would otherwise be the case, which the Fair Tax Commission pegged at about $100 per month as the differential created by this in the Metro Toronto area. There's an effect not only on the rents for existing housing but on the supply of new rental housing.

The current Minister of Municipal Affairs and Housing commissioned a report early in his tenure from an economist named Greg Lampert which identified the property tax burden as the single largest factor in restricting the construction of new rental accommodation. Unless we come to grips with this and really do something that's going to change the situation, which I don't think this bill will, we're going to guarantee that there will continue to be almost no new rental construction in the province.

From our point of view the status quo is clearly indefensible. As an example, in one building in downtown Toronto a 678-square-foot apartment pays $4,240 annually in taxes. Across the hall the same unit, same building, same size, which is owner occupied, as a condominium pays $1,688. A few blocks away you can find very substantial homes in Rosedale which are paying in the $4,000 to $5,000 range, the same as the apartment. There's simply no justification for this. These numbers,

both the inequity between the classes and the actual gross size of the property tax burden on apartments, are unprecedented anywhere else in North America.

One of our members who has properties in quite a number of jurisdictions took a look at the actual property taxes that they're paying elsewhere, which usually run about one to two months' rent in comparison to the three to four months in Ontario. We found that for a unit that has taxes of between $2,000 and $3,000 in Ontario depending what municipality it's located in, you would be paying about $626 in Vancouver, $702 in Calgary, $566 in Halifax, US$737 in Buffalo or US$608 in Ann Arbor. Wherever we look, and then we can go through a whole other list of comparisons across North America, Ontario stands out in terms of a very substantial burden.

As a result of these inequities we've created two major problems. One is that rents are artificially kept high in order to cover this tax burden, which reduces housing affordability for tenants and forces many families over the threshold of poverty. Certainly it's my view that if those politicians who spent a lot of their time talking about the need for rent controls and decrying the lack of affordable housing really wanted to do something about improving the situation for tenants, the number one priority should be addressing the property tax reform.

Second, the excessive property tax rates are a major contributing factor to the lack of rental supply, as the Lampert report referred to. In the last year or two we've had about two dozen rental units — not buildings, individual units — built in the entire GTA and about 500 across the province, compared to the 5,000, 10,000 and 20,000 units we used to get not that long ago. Again, the Lampert report identified a large portion of the responsibility for that, although by no means all, is accountable for the property tax burden.

The government has recognized the supply problem, and certainly when they announced the Fair Municipal Finance Act, one of the government press releases stated very clearly the situation we're in. I quote:

"In almost all Ontario municipalities, rental apartment buildings...are taxed at least twice as heavily as single-family homes and condominiums.... High property taxes represent a major obstacle to investment in new rental housing.... Property tax reform for apartment buildings is a key part of the government's strategy for increasing the supply of new rental housing."

Unfortunately, if property tax reform is indeed a key part of the supply strategy, it was not evident in the legislation itself. Yes, Bill 106 will "give municipalities the power to ensure that rental properties are taxed at a fair rate," to quote the press release, and allow them to "request a separate tax class for new rental apartment buildings...comparable, for example, to owner-occupied condominiums or single-family homes."

By the same token, it will also give them the power not to do anything to ensure that apartments are taxed fairly and it will allow them not to request a new class to tax rental buildings equally with other residential accommodation. Given the relative power of tenants versus homeowners in municipal politics and the long history that we've seen in that area, the changes in Bill 106 are really going to do next to nothing. The same municipalities that have perpetuated decades of inequities I think are going to continue to do the same thing.

1630

The government's strategy, which is put forth by Anne Golden and David Crombie in their reports, seems to be that by ensuring greater transparency in the system and placing responsibility for change clearly with one level of government, pressure on local councils will eventually force the problem to be addressed. I don't believe that's going to be the case, but even if it were, the time it's going to take is going to be much longer than either tenants should bear or the province can afford to do without new rental housing.

I think it's important for the committee to really grapple with what can be done within Bill 106 to try and address the issue today, to address the unfairness and to address the supply concerns. What that means is really amending Bill 106 to require rather than just allow municipalities to institute those changes. Where we're starting from, I think, as a guiding principle is one of the key recommendations in the Fair Tax Commission report, which, though it was commissioned by the previous government, in my discussions I've heard supported by members of all three parties, that "all residential property should be assessed on the same basis whether the property is occupied by an owner or a tenant."

FRPO has long recognized that the rebalancing property tax rates will need to be carried out over a reasonable period of time. It can't happen overnight. Therefore, we would make two specific submissions for amending Bill 106. One is that all municipalities should be required to tax new residential accommodation at a single rate, regardless of the size or the tenure. If you build a new house and you build a new apartment building, whether it's one unit or 200 units, the tax rate should be the same. That would provide an immediate incentive for the construction of new rental housing in the province, which is badly needed.

Second, over a five- or 10-year period, we should be requiring municipalities to phase out the existing differentials between the residential classes so that traditional ownership housing, condominiums and large and small apartments are all taxed equally in the end.

There are precedents for doing this. Manitoba is now more than halfway through a 10-year phase-out of the differential which they used to have between the residential classes, and the city of Calgary has just introduced a three-year program to bring their residential classes to an equal footing after having already cut the differential by about 40% a few years ago. What it really takes is some political courage on the part of all the parties here.

Finally, I just want to mention that landlords certainly have no problem supporting the position that the savings from across-the-board tax cuts should be passed on to their customers as well. Indeed, even in the absence of any form of price control, simple economics would dictate that if you substantially reduce the largest single operating cost for apartment buildings, competition will ensure tenants reap the benefits. Nevertheless, since we will continue to be stuck with some form of rent control in the province for the foreseeable future, albeit somewhat modified under the Tenant Protection Act, the concerns of sceptics can be addressed by legislation.

As a corollary to the kind of changes we would like to see in Bill 106, we would support amendments to Bill 96 to ensure that the tax savings from changes to the multiresidential realty tax rates were passed on to the benefits of tenants in reduced rents or contributions to capital accounts for necessary improvements in the buildings.

Over the years I've heard support from members of all the party here and from mayors and councillors across the province, agreeing that the situation is inequitable in terms of the property tax rates on apartment buildings and a lot of rhetoric about doing something about it, but whenever we got down to detail, inevitably the municipal politicians would point out the province and vice versa.

In Bill 106 we have the chance once and for all to stop passing the buck and actually address the problem. I would urge the committee to take up the opportunity to do so. Thank you.

The Chair: Thank you, Mr Dewan. That leaves us with about a minute and a half each for questions.

Mr Phillips: Just one observation: In your judgement no new rental accommodation is being built, virtually none. That's just an observation. You have two recommendations. Do they both have to be done? If you were only to do one, for example, the first one, is there a problem with that in terms of there being such obvious inequities between existing and new that it would create some severe distortion or problem in the marketplace?

Mr Dewan: Certainly I would think there would be some real problems there. Definitely, you are creating distortions. You're also looking at, in the legislation, that new class for new apartments is only a rate that's available for an eight-year period. After that you would have a sudden significant jump to the rate that applies for all multiresidential accommodation, which is going to play havoc with your pro formas if you're trying to estimate the cost of running a new building.

I think you've got to look at it in two stages. You may bring in the one immediately and then phase-down the other so that by the eighth year, or whatever period of time is taken between five and 10 years, you're essentially at the same point in time. But we would definitely want to make sure that the two concepts are linked.

Mr Pouliot: Thank you for your attendance and presentation. You've indicated that both high taxes and rent control are deterrents to a renewal of new properties being built. Yet in your tone — please correct me if I'm wrong — you wouldn't be opposed to, on the rent control side, sort of a phase-in, sort of a faux protection for Ms Jones. When Ms Jones is evicted during a low vacancy rate period and she's 74 years of age and she finds herself in the snowbank in February, politicians don't like that, that I can assure you of. There are many Ms Joneses and only one of you so it's simple mathematics.

Given the incentive, when Bill 106 passes, how much of an impact will that have on people like Tridel — not so much people like Tridel but the medium-sized, let's say, apartment owners?

Mr Dewan: I'm not sure, are you talking about if Bill 106 passes as is or with the kind of reforms we're recommending here?

Mr Pouliot: Let's say as is.

Mr Dewan: As is I don't think it will do much at all because I don't see many municipalities moving very quickly to change the tax rates. Certainly it can't happen within the next couple of years. By the time you get the new councils in place and they actually pass the measures that are required under this act, you're going to be at least two years down the line. And then, how many of them are going to move very quickly? It takes a long period of time for tenant pressure to try and move that along.

Mr Jim Brown (Scarborough West): Good presentation. You know, tenants don't know how much taxes they pay. Your comment, they pay twice as much as homeowners, they don't know that. All they hear are the mayors like Barbara Hall coming here with busloads of protestors about rent control and they don't realize that she's the one who is doing it to them. They don't realize that tenants are $34,000 household incomes and homeowners are $60,000 and yet they're paying twice as much in property tax.

Mr Dewan: In Barbara Hall's jurisdiction, they're paying almost five times as much.

Mr Jim Brown: It's incredible and it's too bad that they don't know and they don't realize. You go on to say that the municipal politicians talk about all this stuff and they're blaming each other. They should make property tax their number one reform. It's obvious why they don't, I guess. What would you say about why they don't do that?

Mr Dewan: It's always easier to pass the buck, and I guess that's why we would prefer to see the province address it directly here in the legislation rather than putting in to the municipal ballpark because then you're leaving it up to a lot of individual decisions by councillors across the province who are subject to all sorts of pressures. Everyone has recognized the problem. We think it should be addressed directly and the province has the opportunity to do that in this legislation.

Mr Jim Brown: I guess renting all the buses and bringing people here shifts the blame to the province when they should look in their own backyard. That's what you're saying.

The Vice-Chair (Mr Tim Hudak): Thank you, Mr Dewan and the Fair Rental Policy Organization of Ontario for your presentation today. Have a good evening.

1640

BATHURST-DAVENPORT COMMUNITY ASSOCIATION

The Vice-Chair: The next group before the committee is the Bathurst-Davenport Community Association. Good afternoon, Mr Cassel. Welcome to the finance committee.

Mr Richard Cassel: Thank you for allowing me to speak. I've never addressed such a committee before, so bear with me. I run a furniture store. I live in the Bathurst-Davenport area, which is a small group of homes south of Casa Loma, north of the Annex, sandwiched in beside the railway tracks. Perhaps it would give you a better understanding of what I'm trying to explain if you imagine you are a neighbour of mine

living in that area. These are small homes on 15- to 20-foot lots. They were built in the early 1900s. It's mostly a single- and two-family neighbourhood of regular wage earners.

The taxes I pay on my house at present are in the range of $2,400 a year and I've heard numbers ranging up to $4,500 a year for my new tax load. This of course would be based on some kind of assessment. The assessment is somewhat slanted because, being near downtown, a lot of developers want to buy up and break up the neighbourhood to put up larger, fancier homes. This might be nice somewhere in the future when we sell our homes, but I like it the way it is even if it is an old home in a little bit of an unusual area.

I first got involved with a market value assessment problem a few years back when a politician's aide came and knocked on my door and told me my taxes were going to go, at that time, to about $4,500 a year. Before that I didn't really understand market value assessment, but having been told my taxes would double from a more or less reasonable amount to quite a large amount, it got me involved in it. Since then I've had the opportunity to meet with David Crombie and Anne Golden and some of the other Toronto number crunchers and it scares me to think that I'm being delivered a package by the government without being given any actual numbers. I want to see the numbers of what my taxes will go to and so do all my neighbours. If those numbers exist, I'd like them released, and if they don't exist, I don't know how you can go forward with this legislation.

The homes in this area, by the way — this is the Bathurst-Davenport area — as I said, it's a residential neighbourhood. I've also noticed in this meeting the tax structure from hotels and rental properties is obviously slanted against those properties. That is something the local politicians have decided over the years that they wish to do for whatever reasons. I'm not asking anybody here to reopen the legislation, but I do recall that because of all the public money that's going into various trade centres and other tourist kind of benefits, they decided at that time the hotels would bear a heavier tax load because they were one of the major beneficiaries of that public money.

Getting back to this market value assessment, actual value assessment, in speaking to some of the different groups around I've looked at different tax systems. Certainly the tax system that Toronto uses now is archaic, it's out of date, and it's got some major inequities and should be corrected.

The actual value assessment that they use in British Columbia costs, when translated to the population of Ontario, approximately $150 million a year for the province to register with the appeals, plus the assessment teams, plus the cost of the private sector when they are appealing the taxes. So there could be $200 million or $300 million worth of costs in running an AVA system.

When you start comparing something called unit assessments and actual value assessment, you'll find that actually Toronto used to have a unit assessment system based on the size of the lot, the size of the home, the number of rooms, the number of bathrooms and kitchens and what not and a particular value assigned to each room, coming up with an equitable way of comparing properties.

A unit assessment system, if you were to rework it into current numbers, would again take in the lot size, the gross floor area of the house and the use of the property. The market value kind of assessment system is so flexible, and particularly getting back to my neighbourhood in the Bathurst-Davenport area — I'm on the fringe of downtown. The identical house to mine, if it was 10 blocks out of downtown, would assess quite a bit lower and the identical house 10 blocks closer to downtown would assess quite a bit higher. That's to say that the cost of delivering municipal services would be different to identical homes within a 20-block range. That is not common sense. Delivering municipal services is determined by, as I say, some factor of the lot size, the gross floor area and the use of the property.

A unit assessment system is a stable, predictable amount of tax. I would know next year how much tax I would be paying, at least on my mill rate, where with market value assessment it can be up and down like a roller-coaster. To have any fair understanding of my home's value, a stable amount of tax predictable from one year to the next would be a benefit.

With a unit assessment kind of system, if there's an appeal you do it with tape measure, and the only change to the assessment of a home would be if you take out a building permit. It's easy to run a system like that. It's a fair system. The actual value assessment that you are suggesting is going to be a horrendously expensive system to administer requiring appeals and reappeals and professionals to run my side of the appeal against the government's professionals.

One other thing that should be looked at in considering a unit assessment system, at least for the Toronto area, is that putting a penalty on to the size of the lot will affect development particularly outside of Toronto. There's a lot of sprawl, a lot of good farm land and a lot of good land around Toronto that's being frivolously spent with small homes on larger lots. That kind of low density is expensive to administer.

It's expensive to run public transit through low-density neighbourhoods. It's expensive to run fire and ambulance and any kind of service you want to look at. The higher-density urban neighbourhoods are the ones that are easier and more efficient to administer, and that should not be penalized. If anything, you should penalize the opposite, the inefficient.

A unit assessment system can be geared to penalizing the inefficient use of land instead of what is apparently going to be, for me, a very expensive system. When you talk about the savings in running a system, there are no savings to me. My taxes will double. That's not a saving. I can't accept the system that's going to save money by costing you twice as much as I've been paying.

I want to pay a fair amount of tax and I believe I'm within a reasonable range compared to other taxes within Metropolitan Toronto. Likewise a small home out in Scarborough, a similar-sized lot and a similar-sized home, would assess quite a bit lower, and that similar home far out would be taxed considerably less.

Municipal tax is a tax for services delivered; it is not a form of income tax. Income tax is a tax that should be restricted to the federal government, and the fact that the province shares income tax rights with the federal government doesn't mean you can download income tax to the municipal level.

I also own a business in North York. It's a small furniture business. I pay taxes up there and I pay business taxes up there and it's based again on the floor area, the front footage and the usual formulas. I want to know what my business taxes are going to be next year. I want to know, when my lease is up, should I run to Vaughan? I don't know. I want the numbers. We've asked for numbers before. The numbers have not been forthcoming. I'm led to believe that they don't exist, and if they do exist I'd like to know why they're not being released. This is supposed to be an open government. This is supposed to be a democracy.

1650

Speaking of democracy, the people across Metro voted four to one that they wanted to hold this back, they wanted to get this whole mega-package right before making a change, because making a change from one bad system to another bad system is not what this government was elected to do.

I admit that the present form of property assessment in Toronto has fallen apart. There are all sorts of inequities that have to be balanced, and it's going to be a difficult job to recommend to the council and the Premier what package to go with. But it is important, the most important thing for this committee, now to look at these issues and make the strongest recommendation possible to allow for fairness, and the idea that there'll be a reserve fund that my taxes will eventually go to an unfair level doesn't cut it with me. I want my taxes to stay at a fair level as long as I choose to live in that house. My neighbours by and large feel the same way. Their taxes are going to go up just as much as mine.

There's one other thing that I feel should be pointed out here. In speaking to Crombie and speaking to Golden and speaking to the various other experts, they all recommended that a greater Toronto service board be first set up to look at the various issues that affect the GTA, whether that's economic development or public transit, police, whatever issues they may choose to accept at the greater Toronto area level. After that GTSB is set up, then and only then should the final changes be made, the amalgamations and consolidations of smaller municipalities into larger ones.

There will be several cities in the GTA. They will not become just one city, and the fact that Metropolitan Toronto, as it's known now, is going to become consolidated into one is probably just going to lead to some other inefficiencies. I understand that's a different bill, and there's really no point to going into that now, but again with this whole package of megacity, for me as a resident of the Bathurst-Davenport Community Association, it is important that I be able to maintain some kind of contact with my city councillor because of all the various development pressures and urban issues that go on in a very compact downtown neighbourhood. I don't want to lose that contact through having less representation, because my new council will represent three times the ward size, going from roughly 20,000 people in the ward to 50,000 or 60,000.

The bottom line: I don't want my taxes to more than double.

The Vice-Chair: We can leave some time, Mr Cassel, if you choose, for questions from the members of the committee.

Mr Cassel: Certainly.

Mr Pouliot: Thank you very much, Mr Cassel, for telling us your story, and through that, the story of pretty well all the others. You don't know what your taxes will be, but on account of reassessment — it doesn't matter whether we call it market value or actual value, reassessment or assessment — your taxes are likely going to go up because of your location and because of the philosophy of where you live and you will be one of the losers taxwise. By how much?

We are at a stage, since the revolution is advancing on so many fronts, where we don't know the ramifications, hence the anxiety that leads to a lot of question marks. There are a lot of rumours that you hear and some of them are just that. Others take on extraordinary proportions. If I ask the question, what is operating and what is capital, eight and a half months before the implementation stage they're still not sure.

On all those fronts in the relationship with the municipalities, they're talking with AMO, and all those things are yet to be concluded. This is what scares me, and I, like you, am saying: "Look, you've shown what you call courage. Maybe it is that, but I'm asking you to put the brakes on. Don't put so much on the plate so I can understand what you're doing."

Mr Cassel: The numbers I'm working with — either Peter Tomlinson from the city of Toronto or John Bossons has given me numbers — are that my taxes will be somewhere between 1.3% and 1.5% of current assessed value, and with the welfare downloading if that other side of the package goes through, that could add 25% to 35% on top of that; call that 1.4%.

The typical home in my little area, that little home that anywhere else would sell for $110,000, because of the land value there the homes in that area are ranging from $200,000 to $250,000 and $275,000. So if you take $250,000 at 1.4%, you get an accurate idea of what the taxes will be. Those are the numbers those professionals have crunched out, so I know that my taxes will go to about $4,000 a year from that percentage number.

Mr Pouliot: My God, we're governed by bandits.

Mr Spina: Thank you, Mr Cassel. You have many points that I could probably spend 15 or 20 minutes talking about, but I just wanted to ask you, do you know if you've bought anything on a market value-type basis?

Mr Cassel: Everything I buy is going to market value.

Mr Spina: You talked about unit value earlier, and I guess the point I was making was that, if I wanted to buy a 1992 Chevy and it had 40,000 kilometres and I bought it from a Chev dealer, it would probably have a fairly good market value. If I bought a 1992 Chevy and it had 150,000 or 200,000 kilometres on it, obviously I would be paying considerably less — same car, same engine, same amount of space, same four tires.

The question I'm coming to is that if you want to compare looking at the value of a property based on its

size, like a lot, like a house, versus what its market value is, there's a significant difference. I agree with you and I understand. I also have the other perspective. You're a businessman. I listened to you I suppose tongue-in-cheek humour — I know you were being a little facetious about moving to Vaughan as a businessperson; I would have preferred that you come to Brampton. What I wanted to say was that I could also facetiously say to the city of Toronto, thank you for giving business and industry the gears with high taxes over these years and deliberately keeping the residential taxes unrealistically low, because you chased all the business out of the core of Toronto to the suburbs. Not you personally, of course.

The objective here is that we don't want to see that hollow core take place in Toronto, because that's what's happening from a business perspective, and that places an undue burden on the individuals, on the residences. All I wanted to say was that we're just trying to right it and we feel that this is probably the most opportune way to do it. By the way, the numbers you were seeking: You talk to Ms Golden. Look at her report. She's done the analysis and the assessment.

Mr Cassel: Could I just make one quick comment to that? When I drive that Chevy or Cadillac, the price of gas is the same. They don't charge more per gallon because your car is nicer. You buy the car you choose. The price of gas stays the same.

Mr Phillips: I just want to follow on Mr Spina's comments because I think they're important. I have here the campaign document from Ms Bassett. You can't read it but I'll read it for you. This is what Mike Harris said about market value before the election: "The policy of the PC Party has always been that we will never" — that's in bold there — "impose market value assessment in Toronto. We remain firm in that position" — firm. As a matter of fact Mr Leach said, "My party and I will never" — underline the word "never" — "support the imposition of market value assessment in Metro Toronto."

I'm curious as to what you would think led Mr Harris before the elections to say that and after the election to say that he wants to impose it?

Mr Cassel: I will answer that question in an odd sort of way. I voted Conservative because of the promises that were made. One of the other promises that was made was that the Conservatives would run an open government, that they would enact legislation to allow referenda, and that after they had that legislation around referenda they would follow that. In fact, the referendum Toronto ran this spring was only because of the legislation the Conservative Party passed last year.

Seeing as it's their own legislation that they're ignoring, I have no answer for why they would also ignore their other promises.

Mr Phillips: It seems quite curious, because it was categorical in that "I would never"; I mean, it isn't just "not in the foreseeable future." "Never" is long time and that's what Mr Leach and Ms Bassett said. It just strikes me as odd that suddenly a 180-degree turn has taken place.

You've indicated that the net result for your property would be a fairly substantial increase in taxes. Had you been aware that they were going to, dare I say, flip-flop on this promise, might that have influenced how you might have voted?

Mr Cassel: Oh, absolutely. I don't have any particular political stripe. I try to vote for the politician who I believe will suit my interests the best. I'm afraid I've been misled.

The Vice-Chair: Thank you Mr Phillips. That concludes our time. Mr Cassel, thank you very much for your presentation. Have a good evening now. Thank you, members of the committee. That's our last deputation of the day. I will be adjourning this committee until we reconvene tomorrow morning at 10 am in the same room. This committee stands adjourned.

The committee adjourned at 1702.

CONTENTS

Tuesday 8 April 1997

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Chair / Président: Mr Ted Chudleigh (Halton North / -Nord PC)
Vice-Chair / Vice-Président: Mr Tim Hudak (Niagara South / -Sud PC)

Ms Isabel Bassett (St Andrew-St Patrick PC)
Mr Jim Brown (Scarborough West / -Ouest PC)
Mr Ted Chudleigh (Halton North / -Nord PC)
Mr Joseph Cordiano (Lawrence L)
Mr Douglas B. Ford (Etobicoke-Humber PC)
Mr Tim Hudak (Niagara South / -Sud PC)
Mr Monte Kwinter (Wilson Heights L)
Mr Tony Martin (Sault Ste Marie ND)
Mr Gerry Martiniuk (Cambridge PC)
Mr Gerry Phillips (Scarborough-Agincourt L)
Mr Gilles Pouliot (Lake Nipigon / Lac-Nipigon ND)
Mr E.J. Douglas Rollins (Quinte PC)
Mr Joseph Spina (Brampton North / -Nord PC)
Mr Wayne Wettlaufer (Kitchener PC)

Substitutions / Membres remplaçants:
Mr Gary Fox (Prince Edward-Lennox-South Hastings / Prince Edward-Lennox-Hastings-Sud PC)

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Wednesday 9 April 1997

Journal des débats (Hansard)

Mercredi 9 avril 1997

Standing committee on finance and economic affairs

Comité permanent des finances et des affaires économiques

Fair Municipal Finance Act, 1997

Loi de 1997 sur le financement équitable des municipalités

Chair: Ted Chudleigh
Clerk: Franco Carrozza

Président : Ted Chudleigh
Greffier : Franco Carrozza

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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Wednesday 9 April 1997

Mercredi 9 avril 1997

The committee met at 1000 in room 151.

FAIR MUNICIPAL FINANCE ACT, 1997
LOI DE 1997 SUR LE FINANCEMENT ÉQUITABLE DES MUNICIPALITÉS

Consideration of Bill 106, An Act respecting the financing of local government / Projet de loi 106, Loi concernant le financement des administrations locales.

ONTARIO CHAMBER OF COMMERCE

The Chair (Mr Ted Chudleigh): We'll call the meeting to order. I thank the committee for being so prompt.

We have with us this morning to start the day the Ontario Chamber of Commerce, Mr Ian Cunningham. Mr Cunningham, welcome to the standing committee on finance and economic affairs. We look forward to your presentation and we'll fill any remaining time with questions.

Mr Ian Cunningham: Good morning, Mr Chairman, ladies and gentlemen. Thank you for the opportunity to present the views of the Ontario Chamber of Commerce. As members of the committee will know, the Ontario Chamber of Commerce is the leading voice of business in the province, representing more than 60,000 employers through some 176 affiliated community chambers of commerce and boards of trade. It's my understanding that a number of our local organizations will also be making presentations before your committee, and I think I saw on today's agenda that the Brampton Board of Trade will be appearing later this afternoon.

Our membership includes firms of all sizes: large, medium and small. They're located in virtually every corner of the province and they operate in virtually every sector. The Ontario chamber is a strong advocate of sound and sustainable fiscal policies and works to ensure that government understands the important role of the private sector in investment and job creation. We welcome the opportunity to appear before your committee and offer our input on the Fair Municipal Finance Act.

The Ontario chamber wishes to compliment the government for bringing forward a comprehensive plan to reform Ontario's current system of assessment and property tax. It has been clear for many years that the existing property tax assessment system is outdated and does not work. This is reflected in the fact that some property assessments have not been updated for more than 50 years and have led to many homeowners and businesses paying more property tax than they should. We believe the introduction of a common assessment base across the province will restore fairness to property taxation. Annual property reassessments will keep the system current and the legislative provision for three-year rolling averages will smooth out potential spikes in property assessment values.

There are several other specific areas that I'd like to comment on briefly today. In regard to the business occupancy tax, the Ontario Chamber of Commerce supports the elimination of the business occupancy tax. This tax is unfair, outdated and discriminatory. It's based on a set of arbitrary tax rates and in no way reflects any reality in Ontario's current economy. Businesses have called for the elimination of this arbitrary and obsolete tax and we are pleased that the government has listened and is prepared to take action.

We are hopeful that this change will help to level the playing field for businesses by rectifying the current situation of tax inequities between municipalities. We have seen in the past the migration of businesses to areas with more favourable tax structures. We should really be focusing our efforts to ensure that new businesses view Ontario as a whole as an attractive location to set up operations. By eliminating the business occupancy tax, arbitrary tax distortions will become a thing of the past. Small businesses in a municipality will pay the same amount of tax if their properties have the same value. By legislating annual assessment updates, businesses will be able to plan for the future with more certainty. This factor alone will help to boost business confidence and the ability to do business in Ontario.

Under this bill, municipalities will be given the ability to recover their share of business occupancy tax revenue by setting different tax rates and different property classes. We are supportive of this move, provided it takes place within the framework of guidelines to be established by the province. However, to ensure accountability, we will be urging our member chambers of commerce and boards of trade to be extremely vigilant in monitoring the activities of their local governments. We will also encourage them to forcefully advocate that the revenue shortfall created by the elimination of the business occupancy tax be made up through operating efficiencies.

The Ontario chamber supports the introduction of a simplified appeals process to deal with disputes over property assessment or classification. However, while the goal of this simplified process is early dispute resolution and a reduction in the backlog of cases, we are not convinced that this factor sufficiently addresses the issue of revenue shortfalls. In recent years we've seen dramatic increases in the number of successful appeals and this has

eroded the municipal tax base. As a result, municipalities have been forced to increase tax rates to help pay for local services.

It's simply not fair that any taxpayer should have to pay more tax because municipal revenues have been diminished by thousands of unnecessary appeals created by an outdated assessment system. We know from experience that tax inequities make the economy less efficient. It is important that these property tax inequities, specifically for business, are eliminated. It is our view that a streamlined assessment appeals process, combined with the stabilization of the assessment tax base, are two of the keys to returning fairness to our system of property taxation.

The Ontario chamber supports the concept of a value-based assessment system where every property will be assessed based on current value. Property owners across Ontario deserve a fair, understandable and more open tax structure. Under the proposed system, municipalities will be able to reduce unfair differences in tax rates in a manageable way but will not be able to increase existing differentials in current tax burdens between property classes. The Ontario chamber supports this distinction and favours an overall reduction in taxes to stimulate new investment in the province.

The chamber supports the use of variable mill rates as an acceptable means of implementing many of the changes proposed in Bill 106. This will give local governments more options when deciding what tax rates to apply to each property class. Historically, the only way municipalities could reduce the property tax burden on business relative to residential properties was to fully equalize taxes. The proposed new system will make it easier for municipalities to make consistent improvements in steps that are acceptable to local taxpayers.

We are encouraged that smaller businesses such as neighbourhood shopping malls and retail stores will benefit from this plan, which will allow municipalities to set preferential tax rates on lower-valued commercial properties. We are confident that by careful management of their new responsibilities, municipalities will be able to provide a more supportive tax climate for all taxpayers, including community businesses. Indeed, municipalities can give any such tax reduction solely to business classes if that's the choice that best meets their local needs, and we are hopeful that this will be the case.

When considering the broad issue of property assessment, there are other specific anomalies that arise from time to time. One such case involves the manner in which railway or utility rights of way are assessed. The current methodology assesses these rights of way based on the value of abutting land. This has created considerable tax inequities and it must be changed.

The Ontario Chamber of Commerce has previously called upon the government to review the manner in which railway rights of way are treated for the purposes of property tax assessment. Our railways are a vital mode of transportation and are important movers of both people and goods. The government must ensure that they are dealt with fairly when being assessed in a manner that is consistent with other modes of transport.

In conclusion, the property tax crisis in the province has been in need of urgent attention for many years. The Ontario Chamber of Commerce wishes to acknowledge the fine work of the GTA Task Force and the Who Does What panel and we applaud the government for embracing many of their well-thought-out recommendations and proposals. We are hopeful that the proposed legislation will lead to the elimination of inequities in the amount of property taxes paid by businesses across the province. We must remember that property tax is the single largest tax for which businesses are responsible. Legislation such as Bill 106 can help to create an environment where businesses are able to thrive in their local communities, create jobs and compete effectively in the international marketplace.

The Ontario Chamber of Commerce will continue to ensure that the voice of business is well represented. After all, business is the engine which drives the economy of our province. For our part, we will continue to offer constructive input to ensure that the economic climate is good for business. In our view, Bill 106 will help to accomplish this goal.

The Chair: Thank you very much, Mr Cunningham. We have about 12 minutes left, four minutes per caucus. Mr Phillips, would you start us off, please.

1010

Mr Gerry Phillips (Scarborough-Agincourt): I appreciate the chamber's presentation. I can tell you, from our party's view, we frankly don't think we've got enough information to reach conclusions on the bill. I come from a business background and I used, as they say, due diligence and this is a contract that I wouldn't sign without a lot more information.

In any event, the thing we've heard from all the municipal people we've talked with is that the $1.6 billion on business occupancy tax that's currently raised is going to be reallocated back on to the commercial-industrial sector. That is the expectation, that's exactly what we expect from the bill, so you reallocate the $1.6 billion. Right now it's done on the basis of the old formula, the 75% etc. It now will be allocated on the basis of assessment, so a majority of businesses, a majority of the numbers, will see property tax increases averaging 10%. Other businesses, of course, will see tax decreases, and large businesses — retail chains, financial institutions — substantial decreases. That's the result of the bill. When that happens, it will be no surprise to anybody because the $1.6 billion, the municipalities are saying, "That's how we're going to get it." This contract will be signed on behalf of the people of Ontario by Mike Harris in a few weeks and that's what will happen.

I gather from the chamber's presentation today that you're in agreement with that. You're urging us to sign the contract on Bill 106. That's going to be the output of it, but the chamber supports that as a fairer method of raising the taxes than the existing BOT.

Mr Cunningham: It's our view that municipal councils are well equipped to use the tools that are provided to them under the proposed amendments and that in consultation with their local communities they will develop an appropriate regime for their community. We will of course urge our community chambers of com-

merce and boards of trade to play a role in that consultation.

It's my experience with local council that they are the most approachable level of government. They are the level of government that one can influence to the greatest degree. My own experience at the community level is that if a chamber of commerce takes a delegation of 150 people to a council meeting and is well prepared, that council will listen and will respond to the needs of the business community.

Mr Phillips: I appreciate that very much. I'm just saying they will be working with a law that says you take the business —

Mr Cunningham: That they can't do that. They can do exactly what you say, and it's our view that we're going to have to get more aggressive on the community front to ensure that does not happen. We're in the business of looking after the needs of our members, some 60,000 employers across the province, and we will mobilize our community chambers of commerce and boards of trade to ensure that taxes are not loaded back on to business at the community level.

Mr Phillips: We've been told that's what's going to happen, but you still are urging us to agree to the bill.

Mr Cunningham: These decisions ought to be made at the local level. The bill gives municipalities the tools to construct their own regime of tax treatment in a way that they think is appropriate for their community. We think community chambers of commerce can play a role in shaping that tax regime and ensuring that the taxes that are placed on business are at an appropriate level.

Mr Phillips: I guess I'm just saying to the chamber that my interpretation of the law is that the flexibility is gone, so I would hope the chamber doesn't say a year from now, because that's when the tax bills will come out, "How did this possibly happen? Why are small business taxes going up like this?" and your members ringing the phone off the hook. I'm just saying the councils' hands are tied once the bill is passed, other than saying, "We're going to raise less taxes," but already, as we may hear from AMO, they're faced with perhaps more expense, not less expense.

Mr Gilles Pouliot (Lake Nipigon): AMO's back must feel refreshed. They've been under intensive massage.

Mr Cunningham, welcome and good morning. You represent the Ontario Chamber of Commerce. Would I be right in assuming that most of your membership would be made up of small- and medium-sized business?

Mr Cunningham: I mentioned we have 60,000 employers. The majority would be probably less than 50 employees, but we also include companies like Royal Bank, General Motors, IBM.

Mr Pouliot: The Royal Bank and General Motors, by virtue of the elimination of the business occupancy tax, will benefit the most. They are the winners. Second in line are the large hotel and motel chains, and then third but certainly not last — there are a few more winners — are the large apartment residential units.

What happens under this proposal, as you've mentioned, is that the commercial responsibility towards education, the education levy, remains. There are only so many dollars that can be saved through efficiencies. You still have the responsibility of the general purpose of governments, so if you have a decrease from the top, the money has to be made up somewhere. There's no secret here. Then you go to your local decision-maker, the town council, and they will see one bank president and 500 Ms Joneses in the subsidized units. Which one do you wish?

You will have the responsibility for education taken from the residential taxes and you will have supposedly a trade-off. But this is not revenue-neutral, not a wash, because there will be some added responsibilities that are likely to cost more, so the difference will have to be made up some place. If there's a shortfall at the residential level, they will go to the commercial level, not so much the industrial but the commercial level, which is your membership. Unless we have all the ramifications, all the database, we really are not in the position to say yes or no.

I take with a grain of salt Mr Harris's saying — I know he's well intended — that councils should be able to implement a 10% residential decrease by the year 2000. I haven't met too many people in municipalities who believe that. I mean, it's not who does what, it's who pays for what, in the final analysis.

I would caution, with respect, that unless we've got the database, it will be difficult for all of us and for the government to say — we're waiting for the other shoe to drop. I'd like your reaction, because you seem to be very committed. You're a believer in your cause and I admire that, but we don't wish you to be in a difficult position come six months down the line.

Mr Cunningham: We congratulate the government for having the courage to move ahead. Ideally, you would have perfect information, you would be able to see into the future and predict the future, but the world rarely allows you to have perfect information and predict the future with certainty. We know that something has to be done. This looks like an acceptable package. Action is needed, and in a very general way, this seems acceptable to us and to our members.

Mr Pouliot: You've also mentioned the appeals, and it gets fairly complex. Fully 3.8 million units are to be assessed and reassessed. It's the largest endeavour of its kind ever undertaken in North America. All this has to be in place by April 1998, a very short time. It's been contracted out and it will be done piecemeal, not always by professionals, because they will suffer from overload. In some cases, they will not be welcome to even enter a property. It is expected that 600,000 appeals will join the waiting list of some 300,000. It looks like it might be a heck of a mess.

Courage is one thing. They speak very highly of the First Brigade — they were very courageous — but they're all dead, Mr Cunningham. We feel that the government has not taken the time and they've put an awful lot on the plate. But revolutions are made of this nature, and we know the fate of those endeavours.

Mr Cunningham: That of course would be very embarrassing for the government, and there might be a positive outcome for you if that were the case.

Ms Isabel Bassett (St Andrew-St Patrick): Thanks, Mr Cunningham, for your presentation. You've gone over it in your previous response, but I want you to focus in

for us specifically. First of all, do you believe a multi-tiered commercial tax, by which municipalities could tax smaller commercial properties at a lesser rate, would help to protect and stimulate the small business community in Ontario? Second, would you explain why this would help them?

1020

Mr Cunningham: My own experience with the current system is that when a reassessment was done, very successful small businesses have experienced huge property tax increases of 300% and 400%, increases that threaten their viability and threaten the sustainability of some very long-standing, very strong businesses. In areas that should be preserved, in commercial areas that in the view of a municipal council might need some special treatment because of their special character, it's not inappropriate that municipalities could identify certain areas for this kind of preferential treatment. Does that answer your question?

Ms Bassett: Yes, that's it exactly. You think it's a good idea and it would stimulate business, would help them.

Mr Cunningham: Yes.

Mr Jim Brown (Scarborough West): My question is a follow-up to Ms Bassett's. Small and medium-size enterprises are the job creators; 85% of all new jobs are generated by them. I'm wondering if we should have a special class for SMEs, not pushing it down to the municipal level, that we establish it to give favourable treatment to small and medium-size businesses as opposed to large. What do you think?

Mr Cunningham: There could be a rationale to support that. Clearly, SMEs are where the growth is. However, at some point a new business is going to have to deal with the realities of paying the regular rates. Maybe it's analogous to a commercial tenant who gets a stepped lease; sometimes, when the lease payments step up, they can't make those payments any more. There is good logic on both sides, but I wouldn't think it should be for an extended time. It's not really been considered, so this is right off the top, but —

Mr Jim Brown: One of the things it might mean is that the little guys don't pay for the breaks the banks get.

The Chair: We thank you, Mr Cunningham, for joining us this morning and making your presentation. We appreciate it very much.

ASSOCIATION OF MUNICIPALITIES OF ONTARIO

The Chair: We now have the Association of Municipalities of Ontario, Mr Mundell and Mr Anderson. Thank you very much for joining us this morning. We have 20 minutes together. If you would make your presentation, we'll fill any remaining time with questions.

Mr Terry Mundell: Mr Chair and members of the committee, it's a pleasure for me to be here today on behalf of the Association of Municipalities of Ontario. My name is Terry Mundell. I'm the president of the association. With me today is Roger Anderson, who's a regional councillor and the deputy mayor of the town of Ajax and the vice-president of our association as well.

There are many aspects of Bill 106 that are favoured by Ontario's municipal sector. Municipalities have asked successive provincial governments for assessment reform and property tax reform. Bill 106 is the first instalment in a two-stage legislative reform process, establishing a new model of assessment and tax policy that will have immediate impacts across Ontario.

Generally, municipalities support the direction and intent of Bill 106. The legislation will give municipalities the financial tools they need to decide on the best tax policy approach to suit local needs. Municipalities are prepared to account for local decisions that reflect local circumstances and local priorities.

There are, however, aspects of Bill 106 that are at odds with municipal interests. The committee and the government need to recognize the enormous impact that assessment reform will create in communities where assessments have not been updated in recent years.

Property taxpayers in Ontario contribute over $14 billion annually to public sector spending. It is an amount almost equivalent to personal income tax in Ontario. In 1997, well over half of local taxes will flow into the province's education system. The remainder will fund critical public services in communities across Ontario. Police services, fire protection and prevention, child care, welfare, economic development, roads, transit and local infrastructure are just a few of the critical services that are financed through municipal property taxes.

In 1998 municipalities will effectively fund all local services. If current proposals are accepted, billions of dollars in municipal property taxes will be used to subsidize a range of provincial services, including income security for people with disabilities, health care, welfare and social housing.

The magnitude of these financial responsibilities means that our assessment and property tax policy framework is the foundation upon which Ontario's system of public services is built. Municipal governments, our communities, property taxpayers and the provincial government have a fundamental interest in an assessment and property tax system that is equitable, fair and sustainable.

In 1997 the provincial government is undertaking a province-wide reassessment based on 1996 values. Municipal financial stability and all the proposed Who Does What reforms are entirely dependent upon the province's success in this endeavour. If this project is not successful, municipalities will not be in a position to take on the massive shift of financial responsibility the province is proposing, nor will they have any capacity to moderate the resulting property tax increases or shifting tax burdens.

The province has also announced that the responsibility for assessment services will be transferred to the municipal sector in 1998. While municipalities accept the policy rationale for a municipally managed assessment services system, like the Who Does What advisory panel, we do not accept that the transfer of responsibility should occur before the new assessment and property tax system has stabilized.

As municipalities plan for Bill 106 and its impacts, they will need high-quality, reliable information for financial planning and to make decisions on local tax

policy. Municipalities and property taxpayers will look to the Ministry of Finance for a comprehensive package of information on new processes and on the impacts for households and businesses across Ontario.

AMO was greatly encouraged by recommendations put forward to the government by the Who Does What assessment and property tax reform subpanel. Many of those recommendations are realized in Bill 106. These changes are generally supported. Other recommendations from the Crombie panel are expected in stage two of the legislative reform. Critical among these is improvements to the assessment base of Ontario's northern communities.

Some aspects of Bill 106 are contrary to the best advice received by the provincial government. I'll turn to those now.

The elimination of the $170-million provincial farm tax rebate will result in economic hardship for many rural municipalities and it will result in property tax increases. AMO rejects this aspect of Bill 106. We do not believe this is an issue which is appropriately dealt with through the municipal property tax system, and therefore urge the province to find an alternative way to achieve its farm finance policy objectives. In some farming communities, the rebatable assessment can range up to 48% of the total tax base, resulting in 36% mill rate increases.

By eliminating the provincial farm tax rebate in favour of a municipally financed 75% discount on farm property taxes, the province will shift massive costs to local residential taxpayers. Ultimately, even farmers will pay more as residential tax rates increase to cope with revenue losses that result from this decision.

Asking property taxpayers to subsidize provincial farm policy does not make sense. The idea was rejected by the Who Does What panel, it is rejected by AMO, and it will be rejected by municipalities and property taxpayers across Ontario.

The issues are the same for managed forests and conservation lands. The financial impact is over $8 million for rural communities.

AMO supports the elimination of the business occupancy tax. For many years, both municipalities and the business community have criticized the tax as unnecessarily complicated. Its design and distribution is wanting of any sound policy rationale. Municipalities have also found the business occupancy tax very difficult to collect. Being an occupancy tax, it is not secured against real property. The province should take steps that will allow municipalities to recoup millions of dollars in uncollectible tax arrears that have resulted from the current business occupancy tax system.

The government's assurances that municipalities will be able to recoup the business occupancy tax by distributing the burden across any or all property classes is a critical component of its decision to eliminate the tax. While the action is effectively revenue-neutral, it will result in tax shifts among businesses and industry in Ontario. The success of this plan will depend on the province's strategy to communicate these important policy changes to the public and to the business community as soon as possible.

The government also needs to be cognizant of the impact of the elimination of the business occupancy tax on business improvement areas. When property taxes are no longer paid directly by business tenants and are paid instead by business property owners, there will be substantial impacts in the business improvement area program. The new Municipal Act will need to ensure that the objectives of the important business improvement area program can still be met within the new tax policy.

1030

AMO supports the government's decision to change tax policy legislation so that local tax policy is determined locally. The move increases municipal autonomy and accountability. Municipalities also support the use of regulatory authority for implementation of the tax policy changes, ensuring maximum flexibility to adjust and address issues as they arise. The minister must release the regulatory components of Bill 106 as soon as possible. They should be released prior to third reading, in order to allow a meaningful evaluation of these important elements of the legislation.

There is a tremendous concern in the municipal sector about the timing of the implementation of Bill 106 and the impact it will have on municipal cash flow if there are delays in issuing interim tax bills. Current information indicates that municipalities will not receive the assessment roll until April 1998. The implication is that municipalities will have to issue an interim tax bill without having access to key information about assessments and the changes associated with the education levy.

The timing is also an issue for tax policy planning and decision-making. Municipal councils will need access to assessment information in order to calculate appropriate tax rates for various property classes. AMO believes that the proposed schedule for receiving such information will make it very difficult for municipalities to do this. The absence of accurate information will undermine the new tax policy framework in 1998.

Generally, AMO supports the arrangement of property classes as set out in Bill 106. We are encouraged that the legislation provides regulatory flexibility for additional property classes to address issues such as small retail properties. AMO also supports the fair measure of local autonomy that is provided for local tax policy decisions.

Municipalities are prepared to account for local decisions on tax rates and tax burdens that reflect local circumstances. The committee and the government need to be aware, however, of the potentially negative impact this policy change may have on municipalities which are single-industry towns, communities which rely heavily on payments in lieu and communities which have a limited non-residential assessment base.

Unfortunately, however, since there were no impact studies done before making the tax policy change, it is difficult to know what the overall impacts will be. The impacts of the Who Does What reforms are also an unknown variable in determining the aggregate impact on property taxes. AMO strongly recommends that such an impact analysis be done prior to the bill's third reading.

The province has acknowledged that Bill 106 is the first step of a two-stage legislative process. There are many important issues that have yet to be resolved. AMO urges the government to build on the advice it received from the Who Does What advisory panel and to put in

place a system of property taxation that meets the needs of municipalities and property taxpayers in every part of Ontario. Key examples are exempted properties, rights of way and properties that are difficult to assess, such as mining facilities, and the assessment of unorganized territory. AMO strongly recommends that decisions on outstanding assessment and property tax issues be made in consultation with Ontario's municipalities.

As we have noted, assessment and property tax is the cornerstone of quality public services in communities across Ontario. It is also the foundation on which the government's provincial-municipal reform plans for 1998 are built.

Bill 106 is very important legislation for municipalities and there is much in it that we support. It represents substantial reform of our current assessment system and fundamental changes to property tax policy in Ontario. Many of the changes have been advocated by our sector for many years.

Municipal government in Ontario has a long tradition of sound financial management and full public accountability. According municipalities a substantial level of autonomy over local tax policy is appropriate and makes good business sense. Municipal governments have proved that they are up to the job of managing Ontario's communities and of leading Ontario into the 21st century.

The implementation of Bill 106 will be very challenging for municipalities and for the provincial government. Success will depend on the quality of the partnership and on the province's commitment to help municipalities make Bill 106 work for Ontario's taxpayers.

The Chair: Thank you, Mr Mundell. We'll start with a two-minute round of questions, with the NDP first.

Mr Pouliot: This is a renewed pleasure. You are truly a professional presenter by this time. You have been totally immersed, Mr Mundell. If you will allow me a very brief prelude, then I only have one question for you. It's one that causes a problem, I think. It has to do with your interim tax levy.

Context: The property taxpayers in Ontario contribute over $14 billion annually to the public sector and you're just saying approximately the same amount as the PIT, the provincial income tax. What we haven't factored into the relationship and the comparison is a 30% decrease in PIT, grosso modo at roughly net in four instalments, two of which have already been implemented. They're out in the marketplace. It took $5.4 billion and 30% of $14 billion to $15 billion. So this exercise here is not revenue-neutral. That money has to come from somewhere. One thing is the added responsibilities you will be facing. The proportion of the property taxes will grow substantially in terms of the overall responsibility that we have in the daily services.

You mentioned the interim tax levy, and I want you to help me with the following timetable. You will look at the 1997 responsibility, general purpose and education. You'll add them up and you'll see the total, let's say, residential, the total base was so much, the total amount was so much. I will go to the maximum allowable by law, and I'll give you an interim tax levy because your fiscal year will start January 1: 50%. Then everything changes. You have 50% of last year's taxation. There are no more schools on January 1. The fiscal year at the provincial level starts April 1. Your assessment has not arrived. Because they say April, there will be all kinds of appeals. It's going to be a bit of a horror show.

What am I to expect at the industrial, commercial and residential level until my final levy? Because you have to be consistent, and you have been, that if you say 50% of last year, there cannot be a large increase compressed over a short period of time. So you have two problems: One is knowing what to charge for what services and the other is time. Time is not your friend here; it is your enemy.

The Chair: You're running perilously close to not giving him time to answer.

Mr Pouliot: Thank you. I apologize. It's so interesting. I get so involved in this.

The Chair: I appreciate that.

Mr Mundell: I thank you for the question. The issue that we have of course, time is one which is very important and we may have some difficulty, by the sound of it, getting the rolls returned to us so that we can make decisions as councils on what it is we think, number one, we need for our interim levy; but number two, I think what we very much need to do is have the information in front of us that shows the system as it was presently and shows the relative burden between classes, and then shows us the information with the proposed new system and the relative burden between classes as we see that.

We can then make decisions as an accountable elected council to determine on our interim levies and our levies for the course of the year what those relative burdens would be and how they affect the properties and how they best then suit our communities, so we can try and minimize the impacts, if we can, as best possible. We need the information to do that, and it looks as though we're not going to have that information. Time is of the essence but the information is extremely important.

Mr Tim Hudak (Niagara South): Thanks to both of you from AMO for your presentation. I wanted to ask you a couple of questions very quickly that you have brought up. My understanding right now is that municipal affairs and finance staff are working with municipal clerks and treasurers, the association of tax collectors and AMO on the issues that you brought of timing, of the data needs of municipalities and the nature of information needed to get to the interim levy when necessary. As well, when the finance minister was here earlier this week, he released some draft regulations. If you didn't get a chance to get hold of those, perhaps somebody from the staff can get them to you.

My question, Mr Mundell, was, I saw the news article that came out earlier this week where Mr Phillips opposite said that municipalities are likely going to go after small business and residential property taxes through this bill, because the province has decided municipalities are able, as partners, to make decisions at the local level as to where they should receive their property tax from. I have much more faith in municipalities than my friends opposite have demonstrated. Do you think municipalities are going to target small business and residential? Should we make some regulation that says how much you can tax, from what sector municipalities can make responsible decisions about where they raise the revenue from?

1040

Mr Mundell: Again, I think municipalities are very much the right group to make those decisions. The check and balance in the system is the accountability. The municipal election is every three years. I am not only a municipal politician, I am a small business owner. I can tell you that my family, my business community in my municipality has a very short memory and they will very much hold me accountable for any decisions I make in terms of how I affect any classes of property taxpayers across the province.

I think what we need to recognize and what needs to be happen is that we need to have the information, to look at the system as we have it today and look in our community and say: "Here's the relative burden between classes in our community today. Here's what we know. Then let's have the new system. Let's have that new system and let's have that same model for our community." So now as a municipal politician I can sit down and look at what those relative burdens were and what they look like under that new system, and I start to look at making decisions and adjusting within those bands to try and limit, where possible, any of those major shifts that we think may occur.

We very much need the information. That's why I can't stress enough to you the timing of how soon we need that information, and the importance of the government, very much the importance of the government, getting out and communicating to people across Ontario the changes in the tax policy. I think it's very important, but we need the information.

Mr Phillips: I have two quick questions. One is on the business occupancy tax, which is $1.6 billion that's gone, and as you point out in your brief, it has to be revenue-neutral. What is your expectation? Do you think municipalities will recover part of it from the residential or will it be recovered from business? In my reading of the bill, we've got to sign this contract in a few weeks and there's no changing it. My reading of the bill is that if you recover it from the business sector it's got to be recovered on the basis of the assessment by business. Has AMO talked about how most municipalities plan to recover the $1.6 billion?

Mr Mundell: Again, the issue tends to be — and I think everybody understands that it needs to be revenue-neutral, that there is no more money — but the issue tends to be that it will vary community to community, depending on what your relative burdens are now and the mix of property classes you have in your community. It's very much different across Ontario, and I think we all know that. That's why it's so important that councillors have that information and that's why the timing is so important. There is some thought that we can't get this done for 1998, and we maybe should be looking at delaying this so that we make sure we get off on the right ground.

Mr Phillips: Is your advice to us that, if we don't get the impact studies, the regulations, we should pass the bill anyway? That's where we're at. We're being asked to sign this contract. We can't get in and look at the factory, if you will. We've got to buy this thing sight unseen. Are you advising us to sort of sign the contract sight unseen, or should we get — you say it should be released prior to third reading.

Mr Mundell: I think clearly we have supported a change in the tax policy for Ontario, the assessment system for Ontario across the province. That needs to be done. We just need to get more information.

Mr Phillips: Before we agree with it.

Mr Mundell: I think it's important that we get the information and we look at the regulations before we get a total look at the package.

The Chair: Thank you very much, Mr Mundell. We appreciate your presentation to us this morning.

COLT CONSULTING SERVICES LTD

The Chair: We now welcome Colt Consulting Services, Mr Howard Colt. Thank you for joining us this morning, Mr Colt, and thank you for going 20 minutes early. We look forward to your presentation and we'll have some questions for you, given time, at the end. Please proceed.

If the members could hold it down so that we could have a presentation. Perhaps you could step outside if you wanted to have further conversations. Mr Pouliot, perhaps you could step outside if you wanted to have a further conversation.

Mr Pouliot: They represent Manitouwadge, my municipality.

The Chair: Oh, that's very important. I understand. We all understand. We know that Mr Pouliot never misses an opportunity.

Mr Colt, I think we now have order.

Mr Howard Colt: Mr Chair, committee members, I would like to thank you for providing me this time to address your committee on such an important matter. I am the president of Colt Consulting Services Ltd, a property tax consulting firm in Toronto which provides professional advice and representation to property owners throughout Ontario. As such, I believe this legislation and your recommendations affect me and my colleagues to an even greater extent than the average citizen. It will be my job to play by your rules.

I have been practising in Ontario since 1986 and completed a number of research papers on property tax assessment reform during my university studies prior to entering the profession. During the course of business, I regularly appear before the Assessment Review Board and Ontario Municipal Board as a taxpayer advocate. I have lectured across Ontario on issues relating to property assessment and municipal taxation, and I am regularly consulted for my opinion on these matters.

The property tax consulting profession has expanded and matured since the province originally took over the function of property assessment in the 1970s. We now have a large and well-established industry which the public calls upon regularly to assist them in weeding through the bureaucratic system of property tax assessment.

Having this background, I wish to advise this committee that I welcome the government's move to reform the, in some cases, antiquated assessment system in Ontario. With changes come uncertainty, and uncertainty leads to concern. It is clearly understandable that many taxpayers,

organizations and ratepayer groups have individual concerns over how the assessment changes will affect the individual. I believe there must be an equitable distribution of the property tax burden among all taxpayers and that this assessment system should be based upon current property values.

With respect to taxation policy, I advocate an assessment system which provides a foundation for the equitable distribution of municipal taxes, and I believe this system should reflect 100% of market value relating to the most current data available. As a taxpayer as well, I believe the system must be delivered efficiently and cost-effectively. The taxation of personal property, machinery and equipment, and chattels is extremely costly to maintain, as is the taxation of individual businesses under the current business occupancy tax. I therefore support the government's proposals with respect to these factors. I also believe that properties receiving similar services pay similar taxes.

With these endorsements made known, I now make the following comments with respect to the proposed legislation and process of assessment reform. While the proposed changes affect every property owner in Ontario, it appears that the changes were painted with a very broad brush, and much detailing is now required. The proposed tax classes are simply a form of categorization which are subject to definition. To date, the legislation does not address these definitions. To leave these definitions to policy or discretion opens the door to substantial litigation.

In addition, the problem with categorization is that it is dated. This is clearly apparent with the current section 7, business assessment, of the Assessment Act. As time passes, different construction and styles emerge, as do land uses. An industrially zoned property today may actually be utilized in a commercial function some time in the future.

Tax rates based on these broad categorizations do not reflect the actual burden on municipal services. The tax bands or categories should therefore be reviewed and mandatorily expanded to reflect the cost of services which are paid for through the tax revenue. This is clearly exemplified by the municipal costs of providing services to 300 units in a single condominium or rental building versus providing the same services to 300 individual homes.

The proposed foundation for assessment is current value. With a few exceptions with respect to farm, conservation and managed forest lands, the value considered is apparently its market value, which is often based on the highest and best use of the property. In many instances, specifically that of land being held for development purposes, its value may be much higher than a rate which reflects the cost of services used by that property.

In addition, it is most often the property owner of development land who pays for the capital cost of servicing this site. In this regard, there should be consideration given to all vacant lands, especially in light of the idea that improved land places greater demands on municipal services than do vacant properties.

The Who Does What panel commented on a two-tiered tax system for commercial properties to address the concerns of small businesses, primarily in Toronto. This negates the effect of tax reform to create equity. There is no foundation to support a lower rate for lesser-valued or smaller properties. By doing so, competing properties, and subsequently businesses, would be taxed at different marginal rates. This would create a surtax on a business that chooses to establish itself within a large development as opposed to an individual smaller site.

1050

Bill 106 permits municipalities to adjust tax rates so they fit within tax bands established by the province. As this move is permissive, as opted for by the municipality, the choice may be made to maintain the status quo. This is clearly not the intention of the legislation. While understanding that there may be tax shifts resulting from proposed changes — and rightly so, as inequities currently exist — municipalities must mandatorily establish tax rates within the proposed tax bands within a time frame set by the legislation.

Part of any fair tax system is that of an accessible review program. The proposed amendments are a step in the right direction in this regard. The current time frame to review and file complaints to the Assessment Review Board is clearly based in favour of the taxing authority. The move to establish a 90-day review period which is completed after the interim tax bills are mailed is applauded. However, as the Assessment Review Board is the ultimate arbitrator in most complaints, its rules should be expanded to adopt many of those currently held by the Ontario Municipal Board.

Historically, assessment appeals have taken from eight months to three years to resolve, and payment of refunds resulting from successful appeals were delayed by an additional year in some municipalities. The municipalities have the option to pay interest on these refunds, but my experience is that few do so and the ones that do pay are at a very low rate. The Who Does What panel recommended that municipalities pay interest on tax refunds resulting from successful appeals. The rate of interest should be set annually through a statutory formula within the legislation.

The proposed provisions dealing with averaging of valuations for determining assessments commencing in the year 2005 appear to be flawed. In particular, shifting values downward, either through use or demolition, appears not to have been taken into account in this bill.

Bill 106 eliminates the provisions of the Municipal Act to apply a residential mill rate on vacant commercial properties. Assessors have historically been reluctant to give consideration in value due to vacancy problems. Furthermore, as with vacant land, vacant buildings do not place the same demand on municipal services as do occupied properties.

This change will now cause the Ministry of Finance to be required to review vacancy trends more closely in their valuations. On the surface, this is not inconsistent with good appraisal and valuation practice; however, in the past, commercial landlords received a tax adjustment through a simple administrative process. Under the proposed system, detailed analyses will be required by both the taxpayer and the Ministry of Finance. This, in my opinion, will lead to the taxpayer requiring additional

expertise in valuation principles, and if he does not posses these skills, he will incur added expense by seeking professional advice. This will only lead to more litigation and a higher delivery cost of the system.

With the use of computerized tax billing systems and automated bank debits, many municipalities have given taxpayers the option to pay via direct debit of bank accounts. As these programs are generally set up in December of the prior year, the billing is based upon the prior year's assessment multiplied by the interim mill rate. In many instances where assessments have been reduced from one year to the next, the interim taxes were calculated unfairly using the prior year's higher assessment. Municipalities must be legislated to calculate interim taxes using the current year's assessment.

On January 16, 1997, the Minister of Finance stated that the Ontario government "will return delivery of tax assessments to the local level as of January 1, 1998. This will give municipalities the tools to provide assessment services to meet local needs."

Whoever delivers the service must also be accountable to the persons who pay for it, ultimately the taxpayer. The Ontario government has historically ignored the interests of taxpayers in establishing taxing authorities and mechanisms of collection. It is our voice that must be included and heard in order to establish an unbiased and equitable base for the collection of the province's municipal revenues.

Thank you, Mr Chairman and committee members, for your time.

The Chair: Thank you very much. We have about two minutes per caucus for questions. We'll start with the government caucus.

Mr E.J. Douglas Rollins (Quinte): Thanks for your presentation. I appreciate it very much. One of the concerns for me, being from more or less rural Ontario, has to do with land for future development that sits relatively close to a municipality, being farmed and getting farm tax rebates, and you know that in a year or two that land will be turned over to development land. What's your feeling on the process for that land? How should it be taxed? Should there be some reassessment or what?

Mr Colt: I believe in the system that agricultural land is very important to the province and that land currently used for farming operation continue to be taxed as farm land. As it becomes development land, under the current system the land is valued at a higher, developed site rate. I believe that's unfair still, in that land, although not developed and not ready to be developed, is still taxed at the much higher rate while it does not require the services of the municipality. In many cases, land can be unfarmed for many years. My concern is that this will unfairly tax those properties and either spur development more quickly or there may be other problems with the valuation side of things.

Mr Gary Fox (Prince Edward-Lennox-South Hastings): I appreciate what you're saying and I agree with you wholeheartedly, especially on the land that can qualify for the farm tax rebate. It is essential that that land, as much of it as possible, remain in agriculture, and it shouldn't change until the services are required for its development.

Market value assessment has been done in the riding I represent, and I think it's only fair that this be done across the province so we're all on a level playing field. I certainly agree with your presentation.

The Chair: Since we have a no-show, perhaps I'll be overly generous. Ms Bassett, did you have a question?

Ms Bassett: Thanks so much for your presentation. I just wanted to clarify something. You say you're in favour of what we've done with the appeal process, but you say the ARB's rules should be expanded to adopt those currently of the OMB, which of course is the process we're getting rid of. Could you explain what you mean? I thought that might already be there.

Mr Colt: In many cases over the past three years, the rules of practice for the Assessment Review Board have been expanded so that larger commercial properties and larger appeals are more formalized. It's very important to have an informal avenue for appeal for the individual taxpayer and homeowner, but in many cases there are substantial values at stake in dealing with properties such as the SkyDome, for example, where you need a more formal process of discovery and investigation and exchange of documentation and review of the decisions the Assessment Review Board makes.

As it is now, the Assessment Review Board is moving towards that direction independently, without any additional legislation. It's being recommended by the chair of the Assessment Review Board, and many of those recommendations have been adopted in their regulations.

The Chair: It's Mr Phillips's turn. This has developed into a five-minute round of questions, for your information.

Mr Phillips: Right now in Bill 106, the small business break is not permitted. As we look at it, when the business occupancy tax is gone — and that's part of the bill, that it is gone — it has to be recovered by municipalities. We've run into no municipalities that say they aren't going to recover it, and everyone we've talked to says they're going to recover it from the business sector. It is taking the business occupancy tax and simply rejigging it and reallocating it. Because business occupancy tax tends to be lower on smaller businesses on average, it looks like the smaller businesses are going to be hurt or hit and larger businesses will benefit.

The board of trade, the Canadian Federation of Independent Business and all the business groups, with the exception of the chamber of commerce, have supported your recommendation, which is that you don't establish two classes of business, small business and large business. The minister has said they may bring it in later on in the spring. We haven't seen it yet, but they may bring it in. So we're not sure he's going to do it.

Can you give us some rationale of why you think it's a bad idea? You've got a paragraph here, but just give us some examples of what happens if you do have that.

1100

Mr Colt: Very simply, you can have two businesses that are operating — let's say that the break is given for every property that is under 5,000 square feet of commercial area. If it's done that way or on a formula value that relates to approximately 5,000 square feet, you have two

businesses, one operating in a 4,000-square-foot strip mall and it gets the break of approximately, say, 10% or 20%, whatever that break is. You have another business down the street that's in a much larger plaza, to the tune of 20,000 square feet. It's the same 4,000-square-foot business, independent store, that's in both plazas. One gets the 20% break; one does not. There's an inequity there. Why would any businessman locate in a larger facility or larger mall if he knows he's going to be paying 20% higher in taxes? The justification of it on a valuation side can't be seen.

Mr Phillips: There's a debate around the "current value" definition. Crombie had, it appears to us, one suggestion. This bill appears to us to have a different suggestion. The Crombie recommendation, as we read it, said it's essentially for the current use of the property. This bill, as we read it, is for what it could be sold at on the market. We suspect there's a difference between the two, although we can't seem to get clarification on that, and if there is a difference, then the concerns you express here in your second point become real, where I gather that for a property that could be sold for another use, the value of it will be driven up, forcing the sale of it for another use very quickly because you couldn't afford to hold it for the current use.

Mr Colt: That's correct.

Mr Phillips: Am I interpreting your concern properly, and have you had an opportunity to look at the Crombie panel wording versus the wording in the bill?

Mr Colt: Yes, I have. The concern I have is more specifically for specific-use properties, primarily development land. Where a property is used to its highest and best use currently, its current use will reflect its value as well under the current proposed legislation. With respect to development land, it's exactly as you put it, that a property may then be developed more quickly because the landlord cannot afford to hold on to it.

The difference in wording also applies to, as an example, an older industrial building situated right next to a residential development. If its value is current use, then, as Crombie proposed, which was the highest and best use of the land and the current use of the building, the land would be valued based on its potential development value, but the building would be valued given the parameters of an old industrial building. You have double valuation, because ideally if for the land its highest and best use is to be redeveloped, the building has no value. So under the Crombie proposal, it's unfair to the taxpayer of a property that has a development potential that's not being utilized. Under the current legislation, it's more reflective of highest and best use, which is what the market anticipates for the value of the property as well, with the exception of development lands only.

Mr Pouliot: Thank you, Mr Colt, for an in-depth analysis. It's a sort of forensic account of Bill 106, and you bring forth a new dimension.

I want to thank both my colleagues, Mr Rollins and Mr Fox. They've asked, in my opinion, very pertinent questions, but they know the impact of 106 on farm lands and its communities. That was to be tentative, so thank you. They've saved me that.

I have a question, but I may not be able to word it the right way, so try to anticipate what I'm about to say. You have an attempt to — well, legislation forthcoming on current or actual market value assessment. Assessment means that you assess. But you also have some new definitions, categories, blocking. I'm just wondering, because I would imagine that assessors will be using the present method of assessing — plus there will be a bit of a rush because there's so much to be done; the timetable is compressed — if we're not to expect after appeals, or after everything is shaken out, when it comes out in the final product, that their very good intention of reassessing to a market value, because of the other definition and the result of appeals, that we might not have to do some of it again, and to what extent. How do you read that?

Mr Colt: I see that there will be a lot of work required over the next three years by part of the Ministry of Finance in refining those values. Unfortunately, the time frame proposed to put this system in place is very quick, and there will be a problem with that.

The greatest indication is what's going on in Metropolitan Toronto right now, and it's not that the assessments are falling drastically as a result of the implementation or adoption of the 1988 market values by the assessment authority; there's a problem in that not only are they implementing those values, but they're finding that many of those values are incorrect and that they have to refine them further. Those are being refined through the appeal process.

Where we're moving towards a market value system, the still-finite detail comes down to the value of a particular property. There's a lot of work, and that's what my job is, once you've developed this system: how to apply a specific value to each property. I have to do that and there's a lot of work involved with that and there are going to be a lot of appeals, as you're aware. There are proposed to be some 600,000, and they won't be resolved very quickly.

Mr Pouliot: Mr Colt, part of the bill allows for a transition period of some eight years, and it's seeking an equilibrium between those who will be most severely impacted either way, the beneficiary and those who have to make up for the shortcoming. It reads well and it's well intended. You have to arrive at a time, sort of reasonable, but human nature — you see, if I was in arrears or if I was to pay, eight years is a very short time. But if I was to benefit, in other words an acquiesence that I've been overpaying or overassessed, eight years is a very long time. While it's well intended in terms of the legislation, you have very patient people on the one hand and impatience on the other hand. I'm not saying it's going to take a generation to heal, but it's something that goes beyond the legislation, because when it hits the road, it's not an easy task for our local politician.

Mr Colt: It's going to make computer programmers who deal with taxation programs very rich over the next six months. That's what it's going to do, this deferral system.

Mr Pouliot: They already are very rich, but that's another matter.

The Chair: Thank you, Mr Colt, for joining us today. It's a very interesting presentation.

1110

CITY OF BRAMPTON
METRUS DEVELOPMENT

The Chair: We now have the pleasure of having His Worship Peter Robertson from the city of Brampton joining us. Mr Robertson, thank you very much for coming to the standing committee on finance and economic affairs. We have 20 minutes together.

Mr Peter Robertson: Thank you, Mr Chairman and members of the committee. It's a pleasure that a municipal official is invited or allowed to give some input from the grass roots on how assessment is functioning at the local level. I'm going to present what the city of Brampton's position is, distribute to you a report from our staff to in more detail tell you what our policy and concern is, and try to illustrate a very serious problem with two case studies, one that I'll recount on behalf of a farmer who unfortunately couldn't come today — he's out of town with his wife — and one from the development community. I have Bob Hooshley here from Metrus Development. I'll try to go quickly because the time is very short to tell the story. Because we've been moved forward, maybe you'll squeeze out a little time in question period.

I'd like to address two parts of the bill. The first is the assessment delivery model, and the second is the treatment of lands slated for urban development. With your indulgence, I have brought along one person in the development community, Bob Hooshley, as I have said.

I'm certain that we want to establish a fair assessment system, and not a delivery system that creates a conflict between local government and citizens who are assessed.

The city of Brampton spearheaded a consensus among the municipalities in the greater Toronto area known as the seven-point plan, which was part of the restructuring of the GTA. The plan recommended a number of points, seven points, but the one critical one was to ask the government to stop creating special-purpose bodies.

I understand that the government may be considering the creation of a special-purpose body to deliver assessment services. An assessment delivery model would become a provincial agency like Ontario Hydro, which has developed into a bureaucratic organization with little or no accountability to the community.

I would encourage the province to avoid the temptation of creating another special-purpose body and to return the function to the municipal sector. At one time, you likely know, assessment was done at the municipal level. Mr Davis said, "Let's move it to a provincial function just till we get it fixed." It's taken 25 years to fix it, and I'm going to tell you how bad it is. It's not been fixed at all.

The policies for assessment should be developed at the provincial level to ensure the consistency. There's no question there; there has to be a uniformity across the province. But there is an advantage of implementing it locally because I think we can be accountable and deliver a service, or to contract it out to the private sector is another option that we at the municipal level could do. We are learning that contracting some things out is an efficient model. In this way, we'd be able to assure accountability.

The second reason is that I'd like to tell you about the problem with the category "vacant land." Before I do, let me just tell you about the farmers I'm representing today. Their names are Joanne and Lorne Wilson, at the corner of Highway 10 and Mayfield Road, which is at the outskirts of our city but it's proposed in the future for residential development.

He sold his property in 1992, or so he thought, to a credible developer. As there was a downturn in the economy, the developer never kept the payments and the land should have reverted back to Lorne and his family. However, through the slickness of the courts, this developer held on to the land legally and Lorne had to go to court to try to get the ownership back. You know how that goes and how the bills escalate. At all times, he continued to farm the land. He understands the problem, if you do not farm your land, from a tax point of view.

In 1992 his taxes were $14,008. There was a supplemental put on it as soon as the assessment department smelled that this was going into a residential zoning, and that was a whack of $90,000. Lorne appealed it and won at the assessment review court. In 1993 the tax bill came out at $100,000. He appealed that and it was returned to $16,000, at the farm rate.

Every year he has to appeal because the assessment department does not take the results of the adjudication of their peers at an assessment review. That's not bad enough. He had to go to the Ontario Municipal Board because the regional assessment commissioner appealed his taxes to the OMB in 1992, 1993 and 1995. Each time he won his assessment review at the OMB and each time the persistence of the assessment department to impose their morality on this situation progressed.

This year, in 1996, guess what his tax bill was proposed to be by the same assessment department? Some $112,000, when four years in a row he has had to appeal it. The cost of hiring a lawyer and a consultant to go through that process is almost equal to the taxes. If this is not harassment, I don't know what it is.

If this was a function of the city of Brampton or the region of Peel, we might have the same staff with the same morality, but sooner or later Lorne would come to the mayor and the political people and say, "Come on, folks, isn't it time you looked into how your staff are behaving and do something about it?" Surely, at the local level, if his request was a fair one, we would respond. That's the nature of local government, to listen to your constituents, try to apply what is fair and then to do it.

That's just a reinforcement to say, if you leave it in a group of bureaucracies, however it's structured, we will never be able to deliver that kind of accountability.

I'm going to switch to the second topic and then introduce you to Bob.

The solution, we think, is to have a fair assessment for vacant land identified as farm land separate from vacant land that is slated for development. The present draft legislation provides for six classes and leaves vacant property as it relates to, principally, zone. As it is zoned, so goes its assessment, which is a problem. In our community, a zoned piece of land might take from 10 to 20 years to come to development, because the official plan of the city of Brampton is a 20-year plan. We need

a ready supply of zoned land in a system to respond to the market and stay competitive.

If bona fide agricultural land was given a $300 to $600 assessment value, let's say, and a vacant industrial category was given a $3,000 to $6,000 assessment, it would solve that problem of industrial land being held for 10 or 20 years, because if it's left the way it is, they get nicked for $60,000 or more an acre. Mr Degasperis is a large developer in our community. We're happy that he has some zoned land so that if a business comes to our town, he can turn it around in a short time and bring jobs to my city. He needs to have a zoning on his land.

1120

The little guy who's next door, 25 Italians who have bought 25 acres and had it zoned, deserve the same kind of attention a large developer might have. When they have their land moved up to $60,000 an acre for taxes, even though they're farming it, they go bankrupt; they can't pay their taxes. That's one of the contributing factors for why the banks in my city are taking over more and more land under power of sale. I'm not there to represent the banks. What I'd like to do is have the ownership of the land in a group of people who deserve it. It's a very serious problem.

I'm going to introduce you to Mr Hooshley and let him speak from the development point of view and their pressures.

Mr Bob Hooshley: Thank you for the opportunity to discuss this issue, which is of great importance to the land development and building industry.

Metrus Development is a large company with land holdings in many southern Ontario municipalities under various stages of development. We see an unequal treatment of tax assessment across the province and we believe a fair and consistent approach must be found. For the last several decades, vacant land was assessed based on its use and not its potential value.

This promoted lands that were being processed towards development to be kept in agricultural use until they were actually needed for development. This was fair to the land owner, since it allowed the developer to work towards a higher end use for the land without the burden of increased taxes. It was fair to the municipality, since it encouraged development but didn't add to the costs of the municipality since no services were being provided to that vacant land, such as road maintenance, garbage collection or school services, for instance.

However, triggered by a recent court decision, some assessment offices have become very aggressive in assessing lands in transition towards development and have maximized assessments at great expense to the development and building industry. Some examples of the impacts of this aggressive approach we have seen are as follows.

Farms were traditionally taxed at the rate of about $40 per acre; that's the final tax bill, not the assessed value. Once work started on a site, moving some earth that ceased to allow farming, those taxes went up by a factor of six, to over $200 per acre.

Once vacant lands were registered and were still vacant sitting there but not built on — for instance, a school site — the tax charged would go up by a factor of 25 times to over $1,000 an acre.

Zoned industrial blocks, vacant industrial blocks, are taxed at 80 times vacant rates; zoned commercial, over 160 times the vacant farm rate; vacant serviced lots that haven't been built on but are sitting there in a bulk situation waiting for building permits to be issued, over 200 times the tax rate on vacant farm land. And all this vacant land has no municipal services being offered to it.

The reaction of the industry is to find ways to reduce this tax burden, which we believe is unfair, since no municipal expenditures are triggered by the development of these lands until they are actually occupied.

There are also negative impacts from a provincial perspective caused by these escalating assessments. For instance, there will be little incentive to farm these vacant lands, resulting in lost agricultural production and related agricultural jobs. The increased assessment in taxes will drive up development costs, housing prices and commercial land costs. The supply of ready-to-go land will be reduced, thereby lowering our competitiveness against nearby US markets. There will be delayed or lost opportunities, which will result in potential job losses to workers in our industry.

We do believe our industry should pay its way, but not be unfairly taxed on non-revenue-generating assets. Land development is a costly process, since fees and development charges are incurred at every step of the way to cover the direct costs of municipalities throughout the approval process. We also pay our fair share of provincial and federal taxes, as all industries do, on the materials and services we buy.

We recognize that there is an increased value in approved land that is still vacant and believe that an approach to tax assessment in a fair way is possible. Based on our experience in other areas such as Niagara region, we propose that lands in transition towards development trigger a higher tax assessment only at registration of a development plan and that this assessment be based on 25% of the final assessed value. Once a building permit has been issued for a parcel of land, the assessment should then go to full value. Zoned land still under agricultural use would be still assessed at agricultural rates.

We believe this compromise benefits all parties. It would encourage developers to move through the development process, to take advantage of the market opportunities when they arise; it would encourage farming on vacant lands, with all the associated benefits; and a 25% assessment would give municipalities welcome revenue on lands for which they have no expenditures and help cities like Brampton achieve their business development goals. It would assist in creating employment and increased competitiveness across the province.

In conclusion, we ask that a specific section be added to Bill 106 to address this request. We thank you for the opportunity to put our points across.

The Chair: Thank you very much. That leaves us about two minutes each for a round of questions. We start with the Liberals.

Mr Phillips: Mr Mayor, on the two points you raised, on the form the assessment system will take, unfortunately it's not being dealt with in the bill; that's being dealt with elsewhere. But we certainly heard your concern. On

the second issue you raised, the bill is cloudy on this issue. In our minds, the Who Does What panel had a certain term they used and the bill seems to be different. But under a couple of sections of the Assessment Act, it says that at the request of a municipality, the Minister of Finance may respond to unusual situations and direct assessors to value certain property under current use if the properties would have a higher value in alternative use.

In other words, it looks like the minister can do whatever he wants, but through regulation. We're having difficulty in dealing in this bill with your concerns, because it looks like the minister is going to give himself the right to deal with these situations in the future, the way we read the bill.

While we have you here, Mr Mayor, we're going to be asked to sign this bill in a matter of a few weeks, and in our opinion, without anywhere near the information we need. If this were a business — I come from a business background — I'd never sign this contract, because they won't let us in to look at the building.

My question is whether your council has had a chance to discuss the education tax on the business sector and how that's going to be handled. The reason I raise it is that over 50% of business property tax goes to education across the province. We are not sure how the province is going to handle that. It's not clear in the bill. Is it going to be a uniform mill rate across the province or are they simply going to say to Brampton, "Please send a cheque to your local school board"? Have you had a chance to find out from the province how they're planning to deal with it, and is that going to be satisfactory to your council?

Mr Robertson: No, we have not found out how they're going to handle it. Your first question was, has our council addressed it? We have addressed it many times and we have some very clear principles that we are encouraging the government to follow.

Mr Phillips: On the business tax for education?

Mr Robertson: Yes.

Mr Phillips: We may be out of time, but maybe you can send that to the committee. That would be helpful, I think.

Mr Pouliot: Your worship, travelling around the province last week, 10 days ago, we were looking at Bill 98, I trust, which makes the transition for development charges from the developers to the municipalities now. I really sympathize with you, because you will be impacted. The developers will no longer have to pay for development charges, it will be your responsibility, and Brampton is most dependent on residential — and industrial — development.

1130

This week you have the impact of assessment on farm land. Now you're going to pick up the slack here; you're going to have pick up the bill. Up to now, with your clerk-treasurer administrators, when you start counting, what does it mean in terms of the tax levy for next year? I know you don't have all the information, but are you going to be able to decrease my property taxes if I'm a resident of Brampton, or is it going to stay the same, or am I going to pay more because it's coming fast and thick?

Mr Robertson: What we believe in Brampton, what we trust the government of the day will do, is to disentangle the different functions, but the bottom line would be a revenue-neutral split. We understand that if education is paid for by the government provincially, that's a good thing because then we know who is paying for education and school boards can't keep whacking up the cost on the property tax. There'll be some control, and surely it needs to be in control. On the other hand, we're trusting that the government will give us a package that will offset that.

Last week, 17 mayors of municipalities of over 100,000 people met and we sent a communication to the government to say: "We commit our staff, regionally and municipally, to work with you to find out that revenue-neutral formula. We think we know a little better how to find it." Let me say that better. The province likely can say, "This is the estimate of what this balance will be," but we think our treasurers can actually run a model in Peel and in the different communities in London and whatever and say: "If you use this model here, it will not be revenue-neutral. If you use this one, it's getting closer to that. Let's try to find that revenue-neutral solution together."

That's the way we do things in Brampton. We need to have developers and the municipality working together or else we can't build a city. Surely we need to have municipalities working with the provincial government to make things better.

Mr Fox: Gentlemen, I assume by this that in the assessment of farm land based on current land use, not vacant land zoning, the proposed taxation of farms at 25% of residential rates would be fair?

Mr Robertson: We think it would be fair, and the idea came from the development community. If we can come to some kind of agreement by negotiation, why don't we do it? If you don't, you leave the assessment department to whack it up to the top level and the war keeps going, and people like Mr Wilson get hurt. But worse than that, these people come to us and say: "After paying three years of your taxes at $60,000 an acre, you can have the land. We can't hold on to it."

You might find it a strange thing to believe that somebody as big as Metrus is saying, "We can't hold on to it." You think that's only a game that little guys play. They can't hold on to their land, if we tax it at $60,000 an acre, for 10 years. How will they create jobs if we tax them out of owning the property? If they have the resources and they keep hold of it, what will the cost of the land be for the homeowner 10 years from now, or for the developer who wants to come in, the business that wants to come in and start a factory? We're just escalating the price of land artificially because of a stupid assessment function and it shouldn't be that way.

We're into economic development. You are and we are. We're working on this together. They are too. So let's get the development community, the province and the little municipality to have a set of rules that makes Ontario stronger and get some jobs happening.

The Chair: Mr Robertson, thank you very much. We appreciate your presentation to us today. Mr Hooshley, thank you very much for joining us.

BEACH ARTS CENTRE

The Chair: We now have Elaine Daviau for the Beach Arts Centre. Welcome to the committee.

Ms Elaine Daviau: Hello. I'm Elaine Daviau. I'm the artistic director of the Beach Arts Centre. We currently moved from church premises in the Beach area of Toronto, St Aidan's church, into a large building owned by Chris Stavro opposite where the racetrack used to be. We're a school that offers dance, music, art, drama and professional-level concerts and shows in an area that is not well supported at this time but currently getting some help from the provincial government. We just received an $8,000 grant, which is very appreciated, from the Ministry of Citizenship, Culture and Recreation.

My concern is the fact that we have to pay $13,000 tax to Mr Stavro, which he pays because he's the owner of the building, but we're a registered charity. My note here covers a lot of charities because I'm not just concerned about my particular charity. I'm concerned about the dissimilarity in treatment of charitable organizations when it comes to realty taxes on premises used for not-for-profit and charitable purposes. There's a serious discrepancy and a lot of us don't understand it. It seems that if you have the right people and power, you can get off taxes.

Currently, if you're a charitable organization and you own your building, you're tax-exempt or have a dispensation of some kind. However, a charity that has to rent space to carry on its work has to pay the tax to the owner, who doesn't get a break, although he gets a break when he does his own personal income tax. The landlord isn't encouraged to pass that small saving he gets in his taxes on to the charity, although some may. We haven't been there long enough to know.

I'm a ballet teacher, so I have to do serious research when I do something like this. The law as I see it doesn't seem to make sense to me. There's not one rule all around for everybody, and the laws that I do know about are not enforced. For instance, I know the Young People's Theatre, which does children's theatre downtown, pays around $70,000 in realty taxes for a year, whereas the National Ballet School, where I was trained, doesn't pay any and basically carries on the same type of work for our area. The National Ballet School has a wonderful board and they really offer a wonderful service to our whole country, but many of us can't reach those levels because we're trying to have fund-raisers to pay our taxes.

There are certain dispensations. The Bata Shoe Museum is tax-exempt because they have what is a considered an exhibition, the same as the Royal Ontario Museum. Other charities don't understand either that they're exempt because they show shoes. We're working with children and paying for children's aid kids to come and take lessons in my school, but I'm trying to raise money to pay this tax.

Some charitable foundations are multimillion-dollar organizations and they do good work, but we are not. There are some organizations that are very small, and I know some of you visit them and you know they're small, but the small charity that rents has to pay tax and the large charity doesn't. It's hard to understand.

We, meaning the cultural industry, offer a very large tax base to Ontario and to our municipalities. We have to have artists to pay, but we also have to pay all the workers who come in to help us, and the volunteer hours, as you know, you can't estimate and put into your assessment for tax because they're free. We would like some assurance that current and planned tax assessments don't erode the cultural industry's very fragile income base.

The giving nature of the work we do doesn't allow for extra money to pay taxes, and donated services are worth money, but they're not money. We are given a lot fewer breaks than several years ago. I put five years ago because that's the time I remember when things were a little healthier in this industry.

1140

We would like to feel that the charities are given equal treatment, which will help our work, and it could be done through a tax exemption across the board, or a sliding scale would work, depending on how much money the charity is worth. In my view, it would really be like giving a very huge grant into the culture industry without the exchange of a lot of paper and work on your part and on the culture industry's part.

There's a comment I made that I didn't put in my note here: When we pay these taxes, as you were saying earlier, sir, part of the tax goes to the board of education, which is another paid-for institution that's undergoing changes. So we are giving taxes for them, and then they compete with us because sometimes we offer the same services, which isn't a serious problem, but it would be nice if we didn't have to face that as well.

As a government that we have chosen in all ways, although you try to collect taxes in a fair way, we feel that as charities you overlook us. We have noticed that you've lumped some into the business sector and lumped others as charities, so we're not sure where we sit.

We don't have the same amount of money to pay as a commercial business does unless you're a really large charity. The National Ballet School, for instance, gets $3 million from three levels of government. That was about three or four years ago. Their budget is $6 million and mine is about $200,000, and I offer very similar work.

Because we rely heavily on free labour, and I would say that in my particular case, and I speak for many, many charities, 90% of the work in the building I'm in right now is free labour, so there's no income to pay it at all. We're not looking to create a large income base. That's not our function, but we have to be there for everybody, for the people who have nothing and for those who want the service we provide, the wonderful dancers like Jane Danielson, whom I have in my school, and the young boy John Hill, who can't afford lessons but we give them. Although Jane's parents could afford them, John's can't. We can't create a large base with those odds.

The benefits to the community, as you all are very aware, can't be assessed at a monetary level. It's hard also to assess how much good a community is doing by their fruits, but we all know that most charities are honest and have in their mandate a need to provide services without having to consider raising money to pay taxes.

We do it strictly to provide for the people, in which case, if we can get a fairer system, the savings that we will incur because we don't have to pay taxes — and we can be more equitable with those who do and those that don't and everybody can benefit — will go directly into the community. There won't be a middleman. If I keep my $13,000 next year, I can pay a staff. My cleaning lady is on welfare right now and I give her $20 to come in and help for two half days. I'd love to put her on staff but I can't afford it.

We encourage both the government and those in opposition in this particular case, because it's an issue of all of ours, to eliminate destructive taxes, either through rebates — so the landlords, if they get a new tenant, will still be charged a tax, but the charity gets it back; then if they have a new tenant, they still would have to be charged the tax — or a direct grant to the charity or eliminating all taxes for charities or in some way providing that we don't have to do fund-raisers to pay the taxes, and I've quoted you some of the differences.

There are some tiny notes here. My husband works for the Ride for Sight; he's a motorcycle person. The RP Foundation gets hundreds and thousands of dollars every year from the biker community; they contribute as well. How would you deal with that? How would you tax them? The RP Foundation got nothing; the bikers could not find a place to give their money because nobody wanted it. But I know many people who have undergone surgery and who are now better off. Research is now being done because of what they've done.

We have to put our heads together and find a way to preserve this charitable status and not tax it and make me say, "My $8,000 you just gave me, I'm going to have to give it back."

Mr Pouliot: I want to thank you very much, Madame Daviau. I'm honoured to meet a real, live person associated with a fine art, ballet. It's not too long ago that these premises were persona non grata to no less a person than Karen Kain, who was not granted the pleasure of an audience by the minister of the day. It's an opportunity delayed, but I'm honoured.

The $20 — and I, like you, speak from the heart, candidly — should not have been mentioned.

Ms Daviau: Why not?

Mr Pouliot: I would ask that it be taken off the record because they'll go after the welfare. The social assistance police —

Ms Daviau: No. She's allowed a certain amount.

Mr Pouliot: It's allowed? Okay.

Mr Daviau: I asked how much it was and I only give her what's allowed.

Mr Pouliot: I wouldn't want her to have the police to go after that.

Ms Daviau: I love that woman; I wouldn't hurt her for anything.

Mr Pouliot: I sympathize with your lot. In business, there are the big businesses, you see — for instance, in the financial institutions, there are cooperatives, credit unions, caisses populaires, the Royal Bank, the big ones.

In culture you have the Royal Ontario Museum, the club. Then you have the street culture, the Saltimbanco that hasn't quite arrived yet to become the Cirque du Soleil, and during difficult times people whom you represent are the last ones to benefit unless you have a wax museum in Niagara Falls.

During bad times, you're the first ones to suffer. You have an opportunity here. You have well-intended people. Ms Bassett has a reputation for giving the fine arts a priority. She knows people who cater to organizations such as yours or who do parallel work, and you could not have come to a better place this morning to have an opportunity to plead your case. This is a rare opportunity. Not too many people have this. They are the government, they have 82 members and you have Madame Bassett. I have no more questions. I'm just listening intently to what my friend Isabel has to say.

Ms Bassett: I'm going to split my time with Mr Ford, who wants to speak. Thanks for your presentation. I'm delighted to see you here.

It's a question, of course, that we are looking at seriously. I was interested where you said, "The law favours some groups and not others," which is true, "with no perceived system. It applies the current law and how it is enforced." Then you also brought up tenants. That's one area that I had not thought of, because I've been looking at this, in terms of charitable status. Could you just elaborate a little more? How many would there be, I guess I want to ask, in terms of charities that sit in the premises as tenants?

1150

Ms Daviau: Without calling other directors and finding out all their business — we've had to be fairly general in any talks I've had with other directors — I believe that unless you have the money to buy the building, which is a massive fund-raiser, it seems that some organizations like the Young People's Theatre — I'm not sure they own. If they pay that tax, they must be renting or, for some reason, can't find the loophole to get out of it.

I know the National Ballet School owns their premises. In the private sector, I know a certain private businessman who pays fabulous amounts of money. He's a private businessman and considering turning into a charity so he can get off. I said: "Don't plan on it. We don't even know if you could." There's no real way to know. There's no way to know. I worked in a church before for 20 years and because the church is exempt my rent was reasonable, but again, we had to share with a lot of people.

Mr Phillips: It's unfortunate. Actually, I've been pouring through the background material in the bill and there's very little I can find on your concerns. I can assure you though, on behalf of our party, that we'll look into that by getting the staff in to talk about it. My understanding of the bill is that it actually tightens up the opportunity for charitable support.

Ms Daviau: It depends how you interpret what assessment is.

Mr Phillips: Yes, but I think the intent of the bill is to make it more difficult to get charitable status. I can be corrected by the government, but that's my understanding of the intent of the bill. It talks about taxing non-religious organizations on the basis of — I probably won't be able

to get my hands on it quickly here, but in the government presentation it talks about —

Ms Daviau: It would be interesting to know about the churches because I give money to that too.

Mr Phillips: Residential farm property class would include land owned and occupied by a religious organization, which struck us as odd. It looked to us like the intent of the bill was to tighten up on the charitable donations. I hope we'll get an opportunity when we have the government officials back in to review the charitable donations, but I can assure you we will take a hard look at your —

Ms Daviau: You can call me any time.

Mr Phillips: I appreciate that because actually you're the first presenter who's raised this issue. As I say, this is what they presented to us: The land owned and occupied by a religious organization would be now residential property. I think that's a change from what was there before.

Ms Daviau: We are a family.

Mr Phillips: Yes.

The Chair: Thank you very much and thank you, Ms Daviau, for making your presentation today.

RETAIL TASK FORCE

The Chair: We now welcome the Retail Task Force, Mr Chmara. I believe you have with you Mr Carefoot, Mr Carter and Ms Decarre. Welcome to the standing committee on finance and economic affairs. We have 20 minutes to spend together. If you would like to make a presentation, we will follow up with any questions, if there's time remaining.

Mr Harold Chmara: Thank you, Mr Chairman. We appreciate having the opportunity this morning to make our presentation. I'm Harold Chmara from the Hudson's Bay Company. My colleagues today are members of the Retail Task Force: Dave Carefoot, who works with me at the Hudson's Bay Co; Tim Carter from the Oshawa Group; and Catherine Decarre, representing Dylex.

The Retail Task Force is these three large retailers which represent the broad spectrum of retailing in Canada: Dylex, which operates specialty stores, mostly in malls from coast to coast — all of us are national companies — Oshawa Group, which operates large grocery stores and also is a wholesaler to independent franchisers, and Hudson's Bay Co, which operates 400 Zellers and Bay stores across the country.

We feel that retailers are in a unique position vis-à-vis this issue of property taxes because our customers and your constituents are the same people. We're on the front lines. When your constituents feel overtaxed, it shows up in our business immediately. The retailers, as you know, have weathered very tough economic times over the last five or six years, and we are just seeing ourselves in the last year and a half on the cusp of some recovery.

We have previously stated that the personal tax reduction was something we thought would be very positive for our customers and therefore the reduction in personal income taxes would free up discretionary income and that would flow through to retailers in the form of more spending potential or more disposable income for our customers. Renewed consumer confidence is the key to economic renewal and job creation, and therefore the maxim that we would put forth is that there is only, in this area of property tax reform, one taxpayer and shifting taxes from one level of government to another or from one taxpayer to another must be done on the basis that there is not an overall increase in taxes. Indeed, we think consumers are still looking towards further tax decreases going forward. Protection against tax increases is essential to the retail sector and economic growth, and I will explain this in some depth very shortly.

The three issues I wanted to speak on this morning in this time are to explain to you that for the retail sector in particular property taxation is a major business cost and impacts our customers' discretionary income significantly; second, that we need provincial leadership to ensure that property tax reform is more than just a shift of taxes from one pocket to another, or one revenue source or government to another; and last, that we do have a few specifics on the lack of information surrounding the fair municipal tax finance bill, which leads us to conclude that we hope that if these details come forth further in the future we'll have an opportunity to address you again. Some of the specific questions that you might have we can't answer because we don't have those details yet.

Property tax for business is a major issue in Ontario. Indeed, second to Newfoundland, the Canadian Federation of Independent Business has noted that on a per-capita and a per-GDP basis, Ontario imposes the heaviest property taxes. Tax increases have been an important issue with retailers over the last 10 years. Property taxes in shopping centres have increased from approximately 25% of operating costs to 50%.

Take the example of Hudson's Bay Co. In 1996, we paid \$113 million in property taxes across Canada. Of that, \$58 million was paid in Ontario, which is almost half the total tax burden, and yet our stores in Ontario comprise only 39% of our stores. Since 1989, our consumers' disposal income has stalled and indeed has declined almost 10%; 8.4% is the exact figure. These property taxes typically represent 2% to 4% or even 5% of sales for a retailer.

1200

I have some information from Statistics Canada; 1994 is the most recent information that they have. Operating profits for retailers — this is these kind of retailers, general merchants and grocery stores — the profit margin before interest and before depreciation is an average of 4.9%. As you've seen in the headlines, obviously for some companies it's negative numbers, but on aggregate it's that number. If you think that property taxes represent 4% or 5% of that, that means the property taxes are equal to the pre-tax profits. In other words, it's a very big number in our business.

In order to stay competitive, retailers are very conscious in a competitive industry about not raising taxes, yet obviously, if we don't shift these taxes through to our customers in our prices, we're not going to be in business. We cannot continuously absorb these kind of tax increases and we think that sooner or later this same issue comes up with businesses across the border. We're the first ones that have to deal with it; we're right there on

the firing line, if you will, with the consumer, but property taxes to our suppliers and so on through the system eventually cascade through on to the customer.

The issue of rethinking and reducing the property tax burden: We think that this theme has been accepted by all three parties, but as these responsibilities are shifted between the province and to the municipalities, we need to have continuous provincial leadership to ensure that there are not unilateral tax increases on business. As we said, it's a bit of a game to say to residential taxpayers, "Your taxes are staying flat and we're going to put everything on business." Sooner or later, those taxes come back to the customer when they're buying merchandise or when they're dealing with other businesses.

We've spoken to some municipalities and at this point they think our business property taxes could increase by as much as in the range of 9% to 12% once these changes are put through. That kind of increase is going to have a dramatic effect on many retailers. The large companies that you see represented here today may be able to weather this, but as you've seen again, even large companies can't go on indefinitely without earning profits.

Retailers will need to know, as we go forward, the effect of redistributing. We can't really address to you what the effect is going to be on redistributing these municipal responsibilities because the information just isn't there yet. Nevertheless, we fully support this process of reform, and we know that it's difficult. Even though this problem is a difficult issue to deal with, we should continue on with it.

One of the specific areas of concern that we want to deal with is the replacement of the business occupancy tax. We do support the decision to eliminate this. I believe again all parties recognize that there are arbitrary aspects to it. But we still don't know how this issue is going to be dealt with. There seems to be a revenue amount that's going to be shifted from the business occupancy tax to the realty taxes.

That needs to be monitored by the provincial government, we think, and addressed, because otherwise you're going to find some businesses with massive increases in taxes and others getting massive decreases. It seems logical for a phase-in to be taking place. This transition is easier for people whose taxes are going up to be phased in over a period of time, and probably that's the only kind of solution that's going to work.

The class definitions, ranges and ratios: The specific definition of commercial property really doesn't give us much further guidance. I believe that on Monday a definition was released which says "land that is not included in any other property class," but that really doesn't assist us in getting any confidence that we have a handle on what our property tax changes are going to be.

A preliminary interpretation of Bill 106 indicates that the purpose of the ranges and ratios is to ensure a fair distribution of the tax burden among property taxes. This is better than the system in British Columbia, which we're familiar with and which also uses AVA which we are comfortable with. But again, as these ranges and ratios have yet to be determined, we still have a great deal of uncertainty as to what effect this is going to have on our taxes.

The next issue I want to touch on is small business concessions, and we have to say this: We're not small businesses. However, we compete with small businesses and it's very difficult to us to understand if a pair of jeans is being sold in a Bay store or in a Dylex store or in a standalone, street-front Main Street store, we all have to be selling those jeans for the same price because we're all competing for the same consumer's dollar, and they're not going to be prepared to pay $5 more at our store just because we have higher property taxes.

While it's admirable that business be supported, we're very conscious, we're very concerned that you don't build something in that gives arbitrary classes of so-called small businesses an advantage. I mean, Dylex could say their stores are small because they're 6,000 square feet and ours are 100,000 square feet, but in fact probably you're going to say, "Well, at Dylex you have sales of $1 billion. You're not a small business." But they're across the street from a store that's exactly the same size that's owned by a single owner-operator, and is it really appropriate that they be getting a tax break?

In conclusion, as I say, we still are in favour of property tax reform. I know this is a complicated issue, but we don't run away from a problem because it's complicated; we do have to solve this and we do have to work it through. We applaud the repeal of the business occupancy tax and we continue to look for provincial leadership to keep pressure on municipalities as we move through the process.

The last point I was going to make was to suggest that in terms of dealing with the provinces, you don't want to start erecting and you cannot erect a massive set of legislation to monitor or force municipalities in how they're going to be dealing with this transition of reallocating and readjusting taxes among businesses or between residential and businesses. But it may be that the experience of introducing the federal GST back in 1990, where you had an information source, a kind of database of what is happening in the municipality, that you probably have that information readily at hand and you could make that information available through the Internet or in some published form so that individuals and businesses in these various municipalities could be kept abreast of how their municipality is dealing with this issue compared to other municipalities.

Thank you again for the time, and we're prepared to address any questions.

The Chair: We have about two minutes for each caucus to ask questions. We'll start with the government caucus.

Mr Douglas B. Ford (Etobicoke-Humber): Yes, gentlemen. I'd like you to listen to a little statement here so that we get a clearer understanding:

"The elimination of business occupancy tax will save significant administrative costs and allow municipalities to pass on savings of the $200 million that is currently lost because the BOT is so difficult to collect.

"We have listened to the concerns of businesses that the BOT is unfair and discriminatory and needs to be eliminated.

"Municipalities will have the local option to decide whether they want to recover the revenue from the BOT. They can use administrative savings to reduce the amount to be recovered, allowing for an overall tax decrease, they can choose to recover revenues from the business classes that paid the BOT or can recoup some of the revenue from other classes, provided that it does not unfairly increase tax differences between classes."

What I'm trying to say is that these various municipalities where your stores are located do not want to overburden these areas because they want the location at that particular site. So they're trying to reduce the taxes on this, and this is what we're trying to do. Do you want to make a comment on that?

Mr David Carefoot: We do support the elimination of the business occupancy tax. I appreciate what you're saying is that municipalities would want to support keeping those stores within the municipality, but that's an unknown factor right now. I've been involved in assessment and taxation issues for probably 30 years and travelled across Canada, and I've seen how some municipalities react to those specific situations. It's an unknown fact now. We don't know what they're going to do, although we appreciate your comment that they would want to keep us within the municipality.

1210

Mr Ford: I agree with what you're saying but there are always in the business area that you're talking about unknown factors. I think they're negotiable from the point of view on both sides there. I think it's very negotiable.

Mr Carefoot: We agree. As long as the total tax that's generated by the elimination of business occupancy tax — obviously it has to be collected from someone else — isn't an unfair burden or a higher burden on us as major commercial tenants within the market, we accept that principle. We hope that's the direction it will go when it comes down to residential sectors, where the voters are, versus commercial. We've seen, for example, in British Columbia that the effective tax rate between commercial and residential is about a five-to-one ratio of commercial to residential, so that's where our concerns are. We appreciate that there have been limits set. We just don't know what that bottom line is going to be yet. We need more information to come to final conclusions.

Mr Phillips: I think you said it all there. We all need more information to come to a conclusion. This is not happening by accident. The government knows if people find out what's going to happen they get angry, so the book on this thing is to pass the bill, with as little information available as absolutely possible, get it done in two weeks. I'm from a business background, as Tim knows, and we're being asked to sign a contract, but they won't let us in to look at the building. We've got to buy this thing without due diligence, and you're one of many groups that have said that. I'm paraphrasing what you said about information, but —

Mr Chmara: Yes. I wouldn't want you to let us think that we've said that we're not in favour of moving this ahead, Mr Phillips.

Mr Phillips: No. Everybody in Ontario is in favour of property tax reform. Everybody says, or most people, "I applaud the courage of the government in moving forward," but I don't know where they're taking us.

Mr Chmara: All of us, not just the government.

Mr Phillips: That's the problem here. There's a fine line between being courageous and being reckless, and we're concerned this is reckless for this reason. You have now said, "Don't put in another class of commercial," and virtually every business organization has said to us, "Don't allow that." If that doesn't happen, small business does pick up a disproportionate share of the business occupancy tax, so the government right now has got it both ways. They're saying, "Don't worry, we're going to do that for small business." You're coming here saying you're supporting the bill on the assumption, I gather, that it won't be two classes of commercial, but we don't know that. I'm repeating myself, but we're being asked to sign a contract without knowledge of what's in it. Could you just go over once again your concerns about two classes of commercial tax definitions?

Mr Tim Carter: Just before he does that, can I comment on what you said before? The Ontario market is savage. It's overstored. We don't have any allowance to pick up a transition as we move through to a finer order. When you remove a system and introduce another one, there will be dislocation around the place. We have a lot of stores, not in our own company, but we see them all over the place from Eaton's on through, where things are very tight, and what we don't want is for a major shift to happen for the business occupancy tax to be removed, the property tax to eat up all that difference and then to move on from that point.

If it continues to move on, we have a lot of small grocers in our operation — you add AVA downtown with it, and maybe their taxes are going to pick up on top of it — and we think it could be disruptive. That's why Harold was mentioning that we would like the province to have a monitoring function as well, not just put it through, because we buy the principles of it, but we're just hoping they don't just put it through and then step back.

Mr Pouliot: Thank you very much. I have maybe a new concept in a broad summarized form where the uncollected portion of the BOT, the business occupancy tax, would be sold to one or many vulture funds that we could get 55, 60, 65 cents on the dollar.

You have a dilemma. Some say you're overretailed. We have looked at the sheet, some of us have, of some of your friends and competitors: a lot of transition. Things have changed at the marketplace, the arrival of Wal-Mart among others, a different perception and concept of what the mart is, and the large general store, we have seen Eaton's, and we followed your dilemma of Dylex for a time. It seems that no one is immune.

You get a break. The business occupancy tax, which by all accounts is flawed, hard to collect, is being removed. You're a winner, except that you need assurance. You're seeking assurance that the municipalities, which are well intended, but because they are under such pressure, some will wish to make up the lost revenue, a normal reaction. They have a choice between a new wrinkle, go to the residential levy, and there are more of them than there are of you, or spread it across in the

commercial, if you wish. I call you industrial. You're not. You're commercial, but you're big commercial. They get it in the neck.

There are no secrets here. There are only so many toppings that make up the pizza. What you lose here you must pick up there. Some people will speak of efficiencies, and it's true you can always bargain or, "You tighten up your belt." "It looks better on you than on me" kind of thing. But those are filled with limitations. You can only eliminate some. It has already been done to a large extent, so it stays the same. What is your focus? You will get the benefit of the business occupancy tax, but they will come after you, don't you think?

Mr Chmara: We certainly don't expect a windfall from this to happen, and I guess it isn't articulated specifically in our submission. But we do expect that the quantum of tax being raised through the business occupancy tax will continue to be raised and that the commercial taxpayers will pick up perhaps all of it, but then you're going to have a difficult transition there, because different classes of commercial people are getting different breaks now or they're getting different rates.

You said that most of the cost savings are there. From a business perspective, I don't think you save costs unless the pressure stays on and on and on. You have to be really creative at how to do this, and cooperative. We hope that certain municipalities, depending upon their own balance between what they think the residential taxpayers will accept, for example, in some communities — you just heard from Brampton. They seemed to imply that they are prepared to be quite accommodating to certain business classes, and perhaps their residential taxpayers would agree with that. Other municipalities may be going the other way, and there will be a balance. But you may be able to facilitate this issue of monitoring by having the database that people can use to see what's happening in these communities.

The Chair: Gentlemen, we thank you very much for appearing before the committee today, and we appreciate your input.

There being no further business this morning, this committee stands in recess until 2 o'clock this afternoon.

The committee recessed from 1219 to 1359.

DAN LECKIE

The Chair: We'll call the meeting back to order. We have with us Councillor Dan Leckie from ward 4, city of Toronto.

Mr Dan Leckie: Ward 5. This is ward 5. Welcome.

The Chair: We have 20 minutes to spend together.

Mr Leckie: I may not use up the full amount of time.

The Chair: We'll use it up with questions if you don't.

Mr Leckie: I'm here basically just to speak to the underlying principle of the bill and to express my opposition to it and represent my neighbourhoods.

The principle of market value assessment, even though you've termed it differently in this particular piece of legislation, is still one that would do quite significant damage to fairly sensitive downtown neighbourhoods. We've managed to keep stable mixed-use housing in the downtown core of the city of Toronto, unlike almost any other city in North America, and there are obvious reasons for that. I want to assert that the history of property taxation is one of the factors. I know there are many.

The kind of neighbourhoods I represent are neighbourhoods like the Sussex-Ulster area, Kensington market, which you all might either know of or have heard of, the Alexandra Park community, that basically Chinese population in the Grange neighbourhood.

I want to say that it's not just the quick hit of the implementation of reassessment and the imposition of MVA on these neighbourhoods that will cause dislocation. It's also the long-term speculative nature of this concept that puts pressure on neighbourhoods to convert their uses from ones which have a low market return to ones that have a higher market return. Those forces can overcome what we might want to do to try to say what kind of city we want to live in, where we would say that we want healthy, strong downtown neighbourhoods as one of the planning visions of our city plan. Most communities in Ontario try to do that.

The difficulty with just market value assessment as it works, especially in highly volatile markets, is it allows speculative forces to be used to drive up the cost of housing or small business in such a way that it becomes the imperative to sell, and to sell to forces that want to rezone or reuse that property in a way that disrupts the neighbourhoods.

We had some very clear examples of this kind of pressure during the development investment speculation in the late 1970s and the 1980s. Places like the city and the province worked very hard to put legislation together that would prevent those speculative forces from taking people's housing away or destroying their small businesses.

The difficulty with the bill as you've structured it, despite the fact that I think alternatives were available, is that you're going to allow the full forces of that speculative pressure to do the planning for you. Rather than a community being able to decide what kind of city they want to live in, the market forces will act unheeded over time — I grant you that; it will take some time — in such a way as to overcome community goals and to force out those particular uses. This makes blockbusting a matter of fact, if you know the term from the development industry, and it makes it very difficult to retain control of those neighbourhoods, and they're very sensitive neighbourhoods. That's the fundamental basis of my opposition. It's the impact on small retail, the impact on healthy downtown neighbourhoods.

I did want to give you an example of two things, one a historical example of an alternative approach, but also to just mention an alternative altogether.

The historical example is a bit of a funny one because it's a North American quirk. In 1919, the city of Toronto enacted a bylaw that established something called partial graded exemption, which you may or may not have heard of. It was a tax relief measure that was meant to assist returning veterans and their families and basically working-class people in the city to keep their homes during a period of time when there was high speculation on

property values that occurred between the end of the war and the end of the Depression. Partial graded exemption basically allowed a writedown of about 50%. It was on a scaled basis, based on the size of the home and the size of the frontage of the home, to determine a reduction in the assessment value that the mill rate was to be levied against.

It applied to basically about 5,000 homes initially and its effect was quite staggering if you compare the results in Toronto to the results that occurred in other North American cities. At the time, the correlation between how much your property taxes were worth and how much your house was worth was about a 1-to-10 ratio: A house was worth between $4,000 and $7,000 and your property taxes were in the $400 to $500 range per year. This allowed a decrease of 50% for those particular communities that applied in the bill. But the outcome of it was staggering. When the Depression came along and family incomes dropped phenomenally, the value of the property dropped but the cost of the taxes didn't. Property values — $7,000 was a house on Wellesley or Harbord at the time — dropped right through the roof, down to $3,000 or $4,000, what you could get by selling your home, but the taxes stayed basically the same.

In most North American cities when this occurred what happened was that the homeowners, the vets and the immigrant families of the time, were forced out of that kind of housing and that housing was brought together into huge parcels owned by one person. That's basically how cities like Boston, Detroit, Chicago and New York got their tenements. They got these large blocks of apartments that were owned at that period by single investors who were able to gobble up huge numbers of houses because there was no tax relief and houses were going for a dime a dozen on the tax relief rolls once 1929 hit.

Toronto was saved from that, but it's an example of trying to have social and economic planning play a role in the market. Not an exclusive role, because obviously it wasn't meant to be operating all by itself, you still had a form of assessing property that was based somewhat on market forces, but it was a relief that allowed you to have planning objectives that kept downtown neighbourhoods as residential and small business neighbourhoods rather than the blockbusting and land accumulation and the tenement construction that went on in many other North American cities.

If you look at the history of taxation and property values in those other North American cities, you find that there have been enormous blips of high speculative investment pressures which changed the use. I know there are other social factors at work here, it's not just land value and property value, but you recognize how those cities end up with huge vacant holes in them of no property value, basically very dangerous places to live or just no-value places to live, holes in the centre of the city. Those cities still suffer from that and they've never been able to do very much about it.

But you've got to be proud of your own cities in Ontario. Because we've had more economic planning and much more tax flexibility, we've been able to avoid those kinds of, whatever you want to call them, slums, holes, vacant areas. I know there were other factors at work. It's not just taxation, there are major social factors at work, but this is certainly part of the formula. The example I gave of partial graded exemption and how it worked out was a significant factor in this. Partial graded exemption was only withdrawn in the last 15 or 20 years. The nature of what families lived in those places has changed as well.

One of the very interesting aspects of this, by the way, that gave Toronto a great deal of efficiency as a city is that having those working-class neighbourhoods near the industrial jobs in the city — the garment factories, the steel factories, Massey-Ferguson kinds of places — meant that you had high efficiency in your transit system, your water systems. That made the city work even better, whereas in the States you had those populations being driven away from the jobs and it caused that much more dislocation. When they built their infrastructure, their costs per unit were much higher than in the city of Toronto. We've always had a very efficient infrastructure construction and therefore we've never had the high property taxes.

In fact, market value assessment generally encourages more greenfield development than brownfield development by its very structure, and that means a less efficient, both environmentally and economically, kind of planning and development.

1410

I just wanted to remind you that there are some historical reasons why things like market value assessment were influenced by planning and economic decisions by local councils that influence how the tax structure worked.

I want to say that there are alternatives and I know the city has official positions, but just as I close, I want to remind you that one that you were presented with, one that even the government party said it would explore before implementing market value assessment, was the unit value structure which has been implemented in other parts of the world. It's basically a lot more sensitive to current uses, so it's not very sensitive to speculative users. It's sensitive to size, which also helps deal with your fairness.

I don't know how we can claim it's fair for a 2,500-square-foot house or even larger, with a huge backyard in the suburbs will end up being taxed at the same rate as a 1,000-square-foot unit in the downtown core which doesn't have access to a large backyard, doesn't have free parking, doesn't have all kinds of other amenities. I know there are advantages to living in the inner city, but there's a fair-fair here. It's not just a question of paying the same taxes based on what your sale price of your property is worth. There's a use value to your property and there's a fairness that's associated with what amenities come with the ownership of the property.

Everyone here would agree that it would be better to have a 2,500- or 3,500-square-foot house with a great big backyard and vines and trees and free parking and a big front yard as well and great services to a smaller downtown unit. But what you're going to do is you're going to change the fundamental dimensions of this by taxing a much smaller unit, with much less costs for society in terms of infrastructure and services provisions, at the

same rate. So this claim about fairness has to be looked at from a use value perspective as well as from a sale value perspective.

I just wanted to outline those general comments. I think it's a mistake to have gone simplistically ahead with recommending something that people have complained about and claimed wouldn't work. New jurisdictions that are taking this on elsewhere in the world are not using such a simplistic market value with its volatility and its unfairness and its impact on market forces and community planning approach at all. They're being more sophisticated. They're looking harder.

You didn't take the recommendations of either the Fair Tax Commission or the work that Golden and Crombie were doing. I'm not sure why, but I do think it's a mistake. So I'll end there.

The Chair: Thank you very much. We've got about two and a half minutes per caucus for questions.

Mr Phillips: Mr Leckie knows his subject very well; I know from experience.

Mr Leckie: You haven't worked on it since the days you and I were on the school boards in Metro in the 1970s. That's when I worked most on this issue.

Mr Pouliot: That was in the 1980s.

Mr Leckie: Oh, no. He was involved in the 1970s.

Mr Phillips: Don't blow my cover here.

Mr Leckie: You and I were on a finance committee of the Metro school board.

Mr Phillips: Yes, we were.

Mr Leckie: And this issue was hot then.

Mr Phillips: Here's the situation as we see it: Everybody agrees there's a need for property tax reform.

Mr Leckie: Yes, especially reassessment.

Mr Phillips: So the government says there has to be reform. We say yes. But here's the problem we run into: We've got this bill. We've got two weeks of hearings. We can get no impact studies. We have no idea — we can surmise. We use our own numbers. We say small business taxes are going to go up 10% and the big operators are going to get about a 19% tax break. That's what we think, but the government won't give us any numbers.

People say, "They've got the courage to go ahead." Yes, they're acting, but in our opinion this may be extremely reckless. Every group that's come before us has expressed concern about not knowing what this means, but we've got the gun to our heads because there must be change and it's, "Take it or leave it." We have to sign this contract without knowing what the implications are.

My question to you is, has the city of Toronto been able to get some impact studies from the province so that you can give us some indication of what the impact will be? They may go ahead anyway, but just so we know what it's going to mean when it does happen a year from now.

Mr Leckie: The fundamental answer is no, we have not been able to, despite freedom of information attempts to get impact studies that we know are available.

Mr Phillips: Why do you think they're denying you that information?

Mr Leckie: We all know, and you've said it, there is an enormous short-term impact — and I've also been pointing out there's a long-term impact — of going to MVA and it can be horrendous for properties which can't afford the adjustment.

Mr Pouliot: Mr Leckie, it's a pleasure to meet you indeed. Ward 5 is right in the heart of the city of Toronto, what the government would refer to as right in the heart of area code 416. If I were in your shoes, sir, I would be hard-pressed not to feel targeted or victimized. When all is said and done, the one urban area that will be impacted the most, and it's not a secret to anyone, is the great city of Toronto. You're about to be assessed and reassessed. That alone will present you with a lot of pressure. You're about to take on additional responsibilities. You're about to be used on the education portion, yes, to benefit others, but nevertheless in this case you will be the victim.

Real-estate-wise, and you live here, if I were a prospective buyer and I wished to live in the city of Toronto, I don't know if I should laugh or cry, rejoice or be saddened. Location, interest rates, price, taxes are all important components that have to be factored in before there is a choice. Maybe it would be time to have a second look and say, what about the proportion, what about the tax burden, which is sure to happen? This is on an annual basis that I'm going to have to pay for all this.

How do you see, in a broadly summarized phrase or two, the future of your city, knowing what you know but unfortunately not knowing what we should know?

Mr Leckie: The biggest problem here is that the downtown communities, the city itself is losing control of its own destiny as a result of this kind of legislation. This is one piece of five or six pieces of legislation that take that control away and that I think jeopardize its long-term health and viability both economically and in every sense of the word. It's a very scary prospect. I honestly, at root, don't understand why the government didn't look carefully at the advice it had been given and come up with a wiser and more sensitive — this seems bullish and simplistic.

Mr Pouliot: There's a lot on the plate at the same time, isn't there?

Mr Leckie: Absolutely.

Ms Bassett: I have two quick questions. One, just for the record, do you think the current system of assessment is fair?

Mr Leckie: Definitely not. There are inequities in the present system and there have been attempts to figure out what they are and address them.

Ms Bassett: The next thing: You mentioned that MVA and AVA were more or less the same. Anne Golden, whom I see all the time, by the way, did recommend AVA strongly. She never stopped —

Mr Leckie: Yes. She had some qualifications on it that we could get into if you want to get into detail.

Ms Bassett: Maybe later, but I wanted to point out that under our system AVA is quite different in terms of assessment differences and in tax differences. Under our system we're going to update annually as opposed to every four years. It's based on a three-year rolling average so we'll miss the peaks and valleys in real estate markets that maybe you would talk about.

In terms of tax differences, and you as a municipal politician I'm sure will understand this, we have handed

over to municipalities the tools in order to cushion blows and to shape the form of assessment they really want so they can help elderly people, they can help the disabled to maintain the type of house they want. They can bring in a two-tier tax system so that small businesses will not suffer the same tax —

1420

Mr Phillips: They can't do that.

Ms Bassett: — as bigger businesses would.

Mr Leckie: But you have to know, in the bill itself, there are a lot fewer powers than we had historically. First of all, you're not allowing us to make transitions between classes. That's a very severe restriction. If you want planning flexibility and use flexibility, you've got to be able to make those transitions. Second of all, the three-year rolling average doesn't begin until 2006. The impacts will already be hard felt in terms of the short range because there's been such a lull in getting assessments up to some kind of equitable basis.

Ms Bassett: Do you think, as a municipal politician, that you will allow the eight-year transition period, that you will be sensitive to the needs of your constituents?

Mr Leckie: Obviously we're going to do everything we can, if this bill passes, to make it work. We're not going to try —

Ms Bassett: But in that area. I'd love an answer.

Mr Leckie: I'm just trying to say to you that over time the powers you give us — what I was trying to say in my remarks was that there are planning alternatives and there are tax structural alternatives you could have used that would have given both more flexibility to be sensitive to the seniors or the small businesses, and more fairness, not only between classes but within classes, and you've not done those.

The Chair: Thank you, Ms Bassett. I appreciate that we can't debate the entire bill in the short period of time we have. Thank you very much, Mr Leckie, for joining us today and making this presentation.

Mr Phillips: Mr Chair, on a point of order: The parliamentary assistant said that the bill allows two classes of commercial. We'd been told that the bill does not allow that, so I'd like clarification on that.

Second, the parliamentary assistant said that this is AVA, actual value assessment, when the briefing said it's current value assessment. I'd like to know whether the briefing was right or whether the parliamentary assistant is right.

Ms Bassett: I missed that.

Mr Phillips: In your remarks you just indicated that the bill permits two classes of commercial.

Ms Bassett: No. It does not. I'm sorry, I misquoted. I meant to say that municipalities will have the option to introduce a two-tier tax structure with a lower tax rate for small business.

Mr Phillips: Not according to this bill, they will not. This bill does not permit that.

Ms Bassett: They will have the option.

Mr Phillips: No, this bill does not permit that.

Ms Bassett: We'll have to clarify that.

The Chair: Could you provide us with clarification on that?

Mr Phillips: The minister has indicated he's bringing in companion legislation later, but I don't think the bill permits that. Second, we've been told by the ministry that this is not actual value assessment but it's current value assessment.

Ms Bassett: Current value assessment, right.

Mr Phillips: You said "AVA."

Ms Bassett: I should say "current." I got caught up. I meant current value assessment.

The Chair: Could you provide some clarification to the committee on the commercial?

Ms Bassett: I will.

The Chair: Thank you very much.

CANADIAN INSTITUTE OF PUBLIC REAL ESTATE COMPANIES

The Chair: We now welcome the Canadian Institute of Public Real Estate Companies, Mr Daniel and Mr Stewart. Welcome to the committee, sir.

Mr Ron Daniel: Thank you. My name is Ron Daniel. I'm the executive director of CIPREC. Briefly, CIPREC's members endorse firmly the direction of Bill 106. We have some transitional concerns that I'll discuss later. With me today is David Stewart, who is the director of taxation for Cambridge Shopping Centres Ltd.

The Canadian Institute of Public Real Estate Companies is comprised of member firms that include most of Canada's large real estate investment and development companies whose shares are publicly traded, plus real estate subsidiaries of public companies, large privately owned real estate development companies, trust companies, insurance companies, pension funds and all the major banks.

As a background to our comments I'd like to give you an overview of what CIPREC's concern is with respect to the escalation of property taxes over the last 10 years or more. CIPREC members pay a significant amount of taxes in Canada and in Ontario. Total property and property-related taxes in Canada paid in 1995 exceeded $1 billion by CIPREC members, and there are approximately 30 members, in Ontario over $600 million, 80% of that in Metropolitan Toronto.

Despite the past severe recession leading to dramatically lower rents and higher vacancies between the six-year period from 1989 to 1994, CIPREC's annual tax survey shows that taxes per square foot in Metro Toronto rose by 79%, while during the same period inflation only rose 21%. At the same time that taxes have soared, municipal services such as garbage collection and snow removal have been withdrawn from commercial and industrial property, and property owners pay private sector contractors for these services with no reduction in municipal taxes.

CIPREC believes that property and property-related taxes are too high and are having a negative impact on Ontario's and Metro Toronto's competitive position and the ability to attract new investment and create new jobs. While that's not directly related to Bill 106, we believe that is a fundamental position we wanted to put on the record.

CIPREC firmly supports the government's initiatives included in Bill 103, an act to amalgamate the municipalities of Metropolitan Toronto, and Bill 104, an act to reform the Ontario education system. CIPREC views all three bills as integral reforms to achieve more equality and fairness across all aspects of municipal governance, including property taxes, education programs and systems, and the cost-effective delivery of municipal services. We view all three as being interrelated and important new steps forward.

I'd like to comment next on Bill 106, the Ontario Fair Municipal Finance Act. CIPREC has long supported the much-needed reform to Ontario's property tax systems and firmly supports the government's initiatives to bring equity and fairness to the property tax assessment systems.

In 1995 CIPREC, in response to growing concern over the spiralling costs of property taxes, undertook a major study of property tax systems in Canada, with particular emphasis in Ontario and Metropolitan Toronto because that's where the largest portions of the members' investments in real estate are. The work was titled Towards A Strategy for Property Tax Reduction: An Opportunity for Action.

Briefly, the study found that the property tax is regressive; inefficient in allocating scarce resources; negatively impacts competitiveness; and is insensitive to corporate health. By that I mean that your taxes are based on the value of the land and not on what the business is producing at any time.

1430

Several recent studies have condemned the present system, including, in its totality, systems of property tax, particularly in Ontario. This includes most comments in the fair tax report for Ontario and the Golden commission. Suggested reforms include equal assessment criteria; removal of unjust weightings; greater use of fees for services; and social costs to be funded by other, broader-based taxes.

Property tax is Canada's second-largest source of income after income tax. Removing education alone from the Ontario tax system will require cost savings plus new revenues of about $8.3 billion in Ontario. That was the prime recommendation of our study, that education be taken completely off property, but we recognized the difficulty of the size of the money to be replaced with new revenue. We looked at cost reductions; reform of existing sales taxes; a carbon tax; local income tax surcharges; and hospitality, gaming, and entertainment taxes.

We never expected that the education component of property tax could be taken off immediately. We are somewhat disappointed that it's been taken off the residential tax first, but we believe future reforms will bring us to look again at the education component of taxes and its burden on commercial property. We will continue to lobby for funding of education by alternative sources of revenue.

However, at the moment we are concerned too with the implementation of a new property assessment system. It's a major undertaking; it will require vast resources and considerable time. We urge the government to examine critically the adequate provision of human and fiscal resources in order to ensure a successful and timely implementation of the new system. Given the time constraints, we believe that should be a major effort by the government.

In reviewing the legislation, we note that the government plans to protect seniors and the disabled, and to phase in the system. In earlier debates in Metropolitan Toronto on market value assessment, we argued that the new assessment system must be phased in over five to 10 years, since what took 40 years to screw up — if you'll pardon the language — must be phased in over five to 10 years. CIPREC asks that the government ensure that an appropriate phase-in period is provided.

Moving on to our concerns with the legislation: The Fair Municipal Finance Act contains a number of changes to the existing system that will have a significant negative impact on commercial and industrial property.

While we don't disagree with the elimination of the business occupancy tax, that step does have very strong implications for commercial and industrial property owners. Presently, the business occupancy tax is paid directly by the tenant and is a lien against the business if he fails to pay. The proposed elimination of occupancy taxes makes the owner, the landlord, responsible for the increase in property taxes.

The following are some of the things our industry believes should be treated as transitional; that is, we need the government's assurance that prior to the new system being implemented, minor changes will be made to correct or adjust for inequities that would otherwise occur.

At present, no business occupancy tax is paid on vacant space. However, Bill 106, with the elimination of the occupancy tax and the planned increase in property taxes, will make the landlord or owner responsible for the total property taxes. We've prepared a couple of schedules, which are attached to our brief, that show the impact on a shopping centre with about 25% vacant space, and an industrial property with about 50% vacant space. You'll see that there's a 45% increase in the tax liability on the shopping centre, and a 50% increase in the industrial model. The reason is that we're now going to have to face the increased burden of approximately 45% of property taxes.

These matters have been resolved in other jurisdictions that have eliminated the business occupancy tax, specifically New Brunswick and Quebec, where they have developed an alternative solution: They would allow for the rebate of the previous business tax on space that is vacant or became vacant for 60 days. Another alternative solution would be to classify vacant space in a separate category and not have the additional new property tax burden placed on it.

Vacant land also presents problems for us. If it does not have commercial activity, vacant land should not be subjected to the proposed increased tax as a result of the elimination of the business tax. Again, Quebec has introduced this amendment when they eliminated business taxes.

I think peculiar to the development industry are the terms long-term gross and semigross leases. These are leases that generally are negotiated with anchor tenants for long terms, up to 30 years, with renewals going as far

out as 50 years. These leases cannot be opened, and since the anchor tenant is now paying the business occupancy tax, it will become the responsibility of the landlord. Without some legislative change, he will not have the ability to pass it through to the tenant. But again in Quebec and New Brunswick, legislation was passed to adjust for that.

We have arranged over the last few years to negotiate with the Ministry of Municipal Affairs and the Ministry of Finance a solution to a very serious problem: specifically, 32 shopping centres in and around Toronto and affecting others across the province, about a change in their method of assessment to market value from what are historical construction costs. It's a very complicated matter. I won't go into it any further than to say that we would like to continue these discussions to make sure that the arrangements for apportionment that have been created for taxation be continued.

CIPREC supports the Ontario fair municipal tax act, Bill 106, as an integral part of a much-needed reform of the provincial education system, municipal governance and fiscal reform provided for in Bills 103 and 104. We also recognize the need for transitional changes to enable all the elements of the new system to come into play without causing severe difficulties for any group or industry.

Earlier in this brief we made reference to our study, Towards a Strategy for Property Tax Reduction, a key element of which was the removal of the education component of property tax from commercial and industrial property taxes. We were disappointed that the government at this time removed the education tax from residential property and not from the commercial and industrial property. However, the issue remains and will return.

The supporters of further tax reform are growing. We were heartened by the following statement from the Ontario Federation of Agriculture: "People should pay people taxes, education, water and sewer services etc, and property should pay for property services, roads and snow removal."

In CIPREC's opinion, the above statement captures the philosophy that should be the underpinning of continuing property tax reform for the future.

The Chair: Thank you very much. That leaves about one minute per caucus.

Mr Pouliot: Mr Daniel, welcome, and thank you most kindly. I'm very interested in your brief. You readily acquiesce that there's a saturation at the property tax level, that people should pay less. In the same vein, you support Bills — well, you didn't include 98, where there's a switch from developers to municipalities — 103, 104, 106. So you support the government. That's okay.

You've got to help me with the following mathematics in terms of taxation. Let's keep in mind one term of office. This is what they will intend to do: An $11-billion deficit will be reconciled in the first term. Add to it $5.4 billion in terms of personal income tax. We're at over $16 billion. They've committed not to decrease one penny from health; that's the big ticket. It's the same thing for education because they will protect teaching in the classroom, and that's where 85% of the salaries and fringes are.

It leaves few alternatives. How do you reconcile, because you won't get it on the revenue side, a commanding $16.5 billion or $16.6 billion of new money — and savings have to be found — some tax breaks for the banks under Bill 106, and for the large industrial sector, and no increase at the residential level?

My mathematics do not give me the flexibility to say that this can all be done, because I don't believe there is $16 billion of new revenue in the next three years. Do you?

Mr Daniel: I have to accept your statement. I haven't looked at the problem in that way. We're looking at it strictly from the standpoint of —

Mr Pouliot: Bill by bill. Okay. Thank you.

Mr Rollins: Thanks, gentlemen, for your presentation. Do you feel that the business occupancy tax, if it's vacant and there's nobody in that business, has to be considered removed from the equation?

Mr Daniel: It's going to be a very significant on top of the tax burden we're already carrying.

1440

Mr Rollins: How do you see it if, as a government, we implement the tax structure the way it is proposed, that there isn't that business tax there and much of that will be transferred back on to that business? We know most cities aren't going to be able to just forget about that million dollars or so they're bringing in; they're going to have to readjust this going back on to the commercial property, and that is vacant. How are you going adjust that to be able to handle that?

Mr David Stewart: I want to be clear. How we would adjust it or —

Mr Rollins: How can you adjust it? There's only one tax bill now; there's only going to be one property tax.

Mr Stewart: What we would like to see is a proportional return to the owner for the increase in the realty tax burden once the business tax is abolished. Our example suggests that for every dollar now being charged as realty taxes, that amount will have to be increased by about 45% to absorb the lost business tax. Now you are shifting that on to the owner of the property when there's a vacancy. Our amendment would assume that there would be a recovery of that, on an annual basis, to the extent that your property is vacant, so if you had a 10% vacancy you should be entitled to 10% of your tax bill back, but only for that 45% increase. Otherwise, there will be a non-recovery and it would lead to a devaluation of the properties.

If you look at example A, we have an increase in the shortfall of $90,535. The reason I have capitalized this at 8% is to give you some idea of the automatic devaluation that's going to happen to that property. When you take a look at these kinds of properties across the province, we could be looking at tens and hundreds of millions of dollars of devaluation of people's properties by shifting a tax burden on to a party that doesn't have a recovery ability. Depending on the nature of the building and the amount of vacancy, it'll be even more devastating.

Mr Phillips: I was struck by your comment, "The supporters of further tax reform are growing heartened that people should pay people taxes, education, water and sewer, and that property should pay for property ser-

vices." You must have really been shocked when the province decided to put social assistance, child care, seniors housing, seniors assistance and long-term care on to property tax. That must have disheartened you a little bit.

Mr Daniel: It caused us some concern, yes.

Mr Phillips: I would think it would, that it might have taken the heart right out of you.

My question is about the business occupancy tax. Our problem is that we've got two weeks on this bill; we are given no information about its impact. We're told, "If you don't pass this bill, you're holding up property tax reform in the province. We've got to get on with it, because everybody knows there should be property tax reform, and it's you who are going to hold it up."

But you pointed out the tremendous implications. We did a calculation on a bank tower that suggests that its property taxes could drop by $3 million to $5 million. If you take what that does to the value, that's a $40-million improvement on the value of that property. That's what we're doing here. We're taking an antiquated tax, the business occupancy tax — it's from 1904 and everybody says it's got to be changed — and we're moving to one that I don't think we've even — the government has refused to give us the impact of that. What is this really going to mean in real terms?

I'm sorry that I'm giving you almost a statement and not a question, because you've raised legitimate questions that we definitely need answers on. But can you give us perhaps a couple of real-life examples of what this might mean for various businesses? Who might benefit in terms of —

Mr Daniel: The occupancy tax, you mean?

Mr Phillips: Yes, the business occupancy tax.

Mr Stewart: Our schedule is based on a 45% average; people have spoken about a 40% and a 50%, so we took 45%. Anybody who is presently taxed at a higher rate than that would be beneficiaries. Obviously, with professionals now at 50%, manufacturers at 60%, financial institutions at 75%, all those will go down by different proportions so they will be the beneficiaries. A lot of the smaller ones, the independents at 30%, by our calculations are going to have a 50% increase.

Those are the winners or losers within that. We're saying there are also the owners who are now being asked to absorb the other part of the missing money because they are non-occupants in vacant space. Our view is that there are benefits and amenities that accrue to an ongoing business that do not accrue to vacant space; therefore, if you want to come up with one 45% rate on your business tax, that would give everybody the exact same rate and not shift the tax burden on to a party that is a non-business occupant, being an owner.

The Chair: We thank Mr Daniel and Mr Stewart and the Canadian Institute of Public Real Estate Companies for coming in and taking the time to make the presentation.

TONY ARAUJO

The Chair: We now welcome Mr Araujo to the standing committee on finance and economic affairs. We have 20 minutes together.

Mr Tony Araujo: You all look bright and chipper today. I guess you're not suffering from too much sleep deprivation.

Good afternoon. I would like to thank the committee for providing me with the opportunity to speak to the issue of property tax reform in Ontario. I wish to speak to the various changes that I believe will come into force with the adoption of this piece of legislation and to make suggestions for its improvement. I would like to preface my presentation by saying that I am not an expert on tax systems, but as a small business owner and an apartment dweller in Toronto, I believe I have as valuable a perspective on the property tax system as any expert.

Virtually everyone commenting on this issue acknowledges that comprehensive property tax reform in Ontario is long overdue. Political expediency has long been the order of the day as various governments of all political stripes have grappled with the issue, studied it to death, proposed change and then acquiesced to demands of vocal opposition groups. The property tax system is a mess and nowhere more so than here in Toronto.

Let me begin by saying that paying for local government services with taxes based on the value of property will never be the fairest system for paying for those services. That being said, other than giving municipalities the power to collect income taxes, I know of no other fairer method for paying for local services.

Prime Minister Jean Chrétien announced yesterday at his meeting with President Bill Clinton that he would like to see free trade extended to South America. As much as many in our local government would like, free trade will not go away. It's a fact of life and it's here to stay. The competitive environment in which Ontario businesses must operate changed fundamentally with the introduction of free trade; the property tax system, however, did not.

In order to compete effectively, business needs a competitive tax system. That word "competitive" brings with it much unnecessary baggage these days. In the context that I am using it here, "competitive" is not a euphemism for the lowest common denominator. A competitive property tax system does not mean that Ontario must race to the position of the lowest tax jurisdiction. Those taxes pay for valuable services. But it does mean that property taxes should not function as an unnecessary distortion.

As I described earlier, I'm a service business owner with eight employees. My business pays a property tax every year. I can understand that tax. That tax tries to reflect the size of the property we occupy, the local services we use ourselves — for instance, sewers — plus our share of those services that the community provides to its citizens as a whole, like recreation. The businesses I compete with in the United States also pay a similar tax, some higher, many lower, but they don't have a second arbitrary business use tax placed on top of their property taxes.

My business has been successful in competing in the new global economy; 15% of our sales are from foreign companies, up from 0% five years ago. I find it difficult to understand the opposition to the elimination of the backwards business occupancy tax. Developed nearly a century ago, the BOT that my business pays has no

relationship whatsoever to the services we obtain from our local municipality, none at all. The BOT is an unnecessary distortion to the property tax system. The value of the tax must still be collected, but we don't need a separate system, with irrelevant classifications, separate billings and separate collections, in order to collect it.

The value of this tax can and should be collected within the regular realty tax system. It's even conceivable that property taxpayers could see a savings from the elimination of this separate system. The inequities of our current system are not there today because local government wanted these inequities, necessarily. They've just never had all the necessary tools to make the system fairer. This bill gives local government some of those tools.

1450

One of the tools this bill gives local government is a requirement for regular assessments. The Toronto property tax system is already based on market value, but those market values are in many cases effectively frozen in time. Many properties were assessed last in the 1940s, others as recently as the early 1990s. In effect, the Toronto property tax system is prehistoric, just like the dinosaurs in the movie The Land That Time Forgot.

The lack of a requirement for regular assessments has left the Toronto property taxpayer hobbled with huge inequities. Million-dollar mansions pay the same taxes as working-class housing. This bill compels municipalities to assess properties on their current values on a regular basis.

Even with this incredible imbalance, governments both local and provincial have been unwilling to tackle the problem, because any change will have as a result some paying more and others paying less. As recent governments have experienced, forcing people to pay more taxes is usually not a ticket to re-election. But fairness must be brought back into the system. I applaud the government for its willingness to take this electoral risk. All Ontarians will ultimately benefit.

Fairness is lacking in the present system whenever reassessments are made on a property. The peaks and valleys that can be expected to arise from current value assessment are sensibly dealt with in the bill by giving municipalities the ability to use three-year rolling average assessments. The committee may wish to re-examine this figure and extend it to five years.

During the late 1980s, the relative value of many neighbourhoods in Toronto changed very rapidly. Even with a three-year average, property taxpayers in, for example, the areas surrounding the Beaches and Annex neighbourhoods would have experienced double-digit tax increases over and above the regular increases they did experience. A five-year average would help ensure neighbourhood stability by sheltering existing property users from price fluctuations in adjacent neighbourhoods.

As a downtown apartment dweller, I am glad to see the government move on the first substantive effort at rental property tax reform. Many apartment dwellers must use this type of accommodation because it is more affordable than a single-family home. In many cases they have no choice. Even though many apartment dwellers have below-average incomes, they pay more property taxes through their rent than equivalent single-family homeowners. There is no better example of the unfairness in this tax system. Those who are not as well-off already pay a larger percentage of their income for accommodation, plus they pay more property taxes as well.

Although the bill will allow municipalities to address this imbalance, it does not compel them to do so. If past experience is any indication of future actions, I believe there is a high probability that local politicians will choose not to fix this problem. The committee should examine this issue with the goal of changing the legislation and compelling municipalities to address this historic imbalance.

If municipalities do revise property taxes on rental accommodation and a reduction to the landlord's property taxes ensues, there is no mechanism in the bill that ensures that renters will see any of that decrease. Renters presently pay for all the property tax on their accommodations. Any decreases in property taxes should be reflected in a corresponding decrease in their rents. The bill does not address this issue. Nothing compels landlords to pass on these savings. The committee should examine this bill or recommend changes to the Rent Control Act with the goal of ensuring that tenants reap this benefit, not landlords.

The bill's other property tax initiative, the reduction of property taxes on new rental buildings, is a sensible proposal to help increase the stock of rental dwellings. I don't believe, however, that an arbitrary limit of eight years for this relief should be specified in the bill. Local municipalities should be allowed to determine an appropriate interval which would reflect their individual circumstances.

In summary, property tax reform is overdue. Business needs a modern, sensible property tax system. The BOT should be eliminated and the value of that tax collected within the regular realty tax system. The rolling average time period for assessments should be extended to five years. Municipalities should be compelled to bring property tax fairness to renters. Landlords should be compelled to pass on to tenants property tax savings arising out of reassessments, and municipalities should have the power to decide the length of time for tax relief on new rental accommodation. Thank you.

The Chair: Thank you very much. That leaves three minutes per caucus, starting with the government caucus.

Ms Bassett: Thanks for your presentation. It was very interesting. You mentioned at the beginning that savings may be had from the elimination of the BOT in some cases, and I wondered if you could elaborate on that a bit. How will businesses recoup some savings?

Mr Araujo: In my business — my business is located in Mississauga; I live in Toronto — we sign a separate cheque for the business occupancy tax. The realty tax is included in our lease. So there are two separate organizations — they may be located in the same building, in city hall in Mississauga — sending out two separate bills: One bill goes to our landlord and one bill goes to us. There are two separate organizations collecting the money and doing whatever it is they do with it. If you've got one organization sending out a bill, one organization receiving a cheque from one source, I think there should be savings.

Mr Phillips: I appreciate your thoughtful presentation. You've obviously thought about it. Your advice on the BOT — as you point out in your brief, everybody says tax reform has to take place and the BOT is obsolete and that sort of thing, but the devil is in the detail, as they say. We have to be sure we aren't replacing one unfair system with another unfair system or that there aren't some gross inequities.

There has been some discussion about giving smaller businesses a break, because it looks as though, if you apply the BOT across the board — you just heard the real estate people — it's a 45% increase in lease payments. What's your opinion on providing small businesses with a break over large businesses in the property tax area?

Mr Araujo: I'm not sure there's really any advantage to providing small business with a special break. City politicians will still have a pie to divide and that pie has to be divided against certain classifications that the minister will have decided are in the bill. As long as that pie is still divided among those business classifications, if you want to classify businesses in a different way or add additional classifications, I don't see a problem with that, but I don't think small businesses need any particular special breaks in the tax system.

Mr Phillips: The bill doesn't allow it right now.

Mr Araujo: I understand that the minister can define what categories of properties would be in each classification.

Mr Phillips: He is saying he may bring in a companion piece of legislation this spring to allow him to establish the second class of commercial businesses, but your advice is that you don't think it's appropriate to be providing a break for smaller businesses over larger businesses.

Mr Araujo: I don't know the details of the planned split. I understand that a city will still have to divide the pie. They'll be dividing up the pie in more discrete portions than they've divided it up in the past; they may want more portions to divide it up into, more classifications, but I don't think small businesses per se should get a special break on taxes. Small homeowners don't get a special break on taxes. They pay the share of taxes that their property value says they should pay.

Mr Pouliot: Thank you, Mr Araujo. I can't say, "Spoken like a true landlord about your tax."

Mr Araujo: I'm not a landlord.

1500

Mr Pouliot: I know you are not, sir. With respect, some presenters, many in fact, vis-à-vis the business occupancy tax, the BOT, while they do appreciate the removal of such a burden, such a tax, are seeking through legislation the assurance that there won't be a sideshow established whereby there would be possibilities from the municipalities to fill in the vacuum.

You've gone one step, not opposite but a step in what I trust is the right direction to give the assurance that the savings that are generated through the elimination of the BOT get passed along to who is in essence the true taxpayer, which is the tenant, some legislative mechanism whereby some of the savings get passed there and/or, you would perhaps agree, into the maintenance and amelioration of the property.

Mr Araujo: I mentioned that there may be a savings in the elimination of the BOT; I didn't say there would be. I think that if a landlord has his property reassessed and an apartment dweller or an apartment building pays a level of taxation similar to a single family dwelling, apartment dwellers will realize a saving, and that saving shouldn't go to the landlord, it should go to the apartment dwellers.

Mr Pouliot: Given the voracity and the insatiable appetite of some landlords, I for one would support some guarantees, however flexible, to make sure the people who pay for all this are no longer further eroded, because there's a train coming down big-time and there will be so many added responsibilities and pressures on municipal council that unless it is legislated, they might not have the opportunity to give it the attention it deserves. I agree with your presentation. Thank you kindly.

NORTH ROSEDALE RATEPAYERS' ASSOCIATION

The Chair: We now welcome the North Rosedale Ratepayers' Association, Mr de Auer and Mr Kellogg. Welcome to the standing committee on finance and economic affairs.

Mr Peter de Auer: I'm Peter de Auer and this is Paul Kellogg. We are both directors of the North Rosedale Ratepayers' Association and obviously thank you for the opportunity to be here. There's been some material distributed, and those are essentially notes from which I intend to speak for as short a period of time as I can get away with. Our presentation will have a very narrow focus. This is strictly on the residential property tax, with which we've been grappling for the last — however long it is, several times historically, but I guess for a little over a year in this particular instance.

First of all, just to take 10 seconds to tell you who we are, the ratepayers' group represents about a third of the total households in the area. There are about 1,000 or so, and we have somewhere around 350 members. The board is elected democratically annually, and we have nearly 50 years of experience in working with government and residents on essentially local issues. We only foray into the larger forums if absolutely pushed. This happens to be one where there's obviously a relationship between local issues and impact on residents and the broader community, but by and large we focus on parking and zoning and traffic and all those other things that impact on local issues.

First of all, we think the goal of municipal taxes is essentially to pay for local services. This is fundamentally different from the income tax, which is more appropriate where the issues are diffuse and specific services provided are impossible to easily allocate to individual properties, if one wants to get to that nitty-gritty level.

Essentially in the debate for the reform of the system there appeared to be two systems which came to the fore. One was AVA, of which, without going into too many details, we thought we'd highlight the issues.

We think that AVA is basically a simplistic answer to a complex problem. The two principal characteristics on the positive side of AVA are that superficially it is fair and one can say that if one has ability to pay, then one should pay if various levels of government have a need for additional funds. Again, superficially it's understandable, because although it might be difficult to establish a market value for one's property, at least there are benchmarks out there which are readily available if people do a little bit of homework.

The problem with AVA is that it's expensive to implement and maintain. We can get into the details, but we're certainly talking about a difference of maybe $150 million to $200 million to implement and somewhere between $30 million and $70 million, in round numbers, to maintain in terms of various costs. Again we can go into that if you'd like to find out how we've achieved those numbers.

Secondly, the system is inherently volatile because it's dependent on relative movements in market prices, and it's fundamentally unfair, unlike what most proponents have said, because there is no good correlation between the location of properties and the incomes of property owners. This has been established by the Fair Tax Commission and other studies. Essentially our conclusion is that AVA is a wealth and income tax, which is contrary to the purpose and objective of municipal taxes.

The alternative which has appeared is unit value, which is fair in the sense that it's oriented to paying for services that are rendered. It's inexpensive to implement and maintain. It's easily understood in the sense that it overwhelmingly depends on the size of property and the building on that property and it needs only to be modified modestly to remove its principal opposition, which is that this particular tax shifts the burden from high-income neighbourhood type of properties to low-income areas. The attachment to these three pages of notes will indicate that this is possible and simple and it has been proposed by Toronto and it's just about as non-intrusive as anything can get.

The fourth point we'd like to make is that our association, rather than choosing between the two systems and getting perhaps into the political arena, has simply concluded that the best way for the government to handle this is to implement tax reform but provide local jurisdictions with local options on how to collect the taxes. This is not a question of the total amount of money to be collected. That is a given. The question is, should each local jurisdiction have the opportunity of deciding how those taxes should be collected?

We think that to insist on the need for uniformity, one system for the province as a whole, in an age of computers when the computer can track a variety of systems is just absurd. This is just going back to a previous era which we don't think has a particular place today.

The next point is that, with all due respect to the government, there has been a consistent refusal in disclosing the impact of whatever changes it wants to implement, and in particular the AVA system. To say that every homeowner in the province is going to be impacted, perhaps significantly, for their largest single lifetime investment is, we think, absolutely untenable and unacceptable.

Again, this is not a question of paying or not paying. To give you an example, we elected a Liberal federally in our area knowing full well that the implication of that was that they were deficit fighters and our taxes were going to go up and we were all going to be poorer because of it. The fact is that if the government wants to increase taxes for a number of people, we think there should be a justification for that, but equally there should be disclosure.

When MVA was supposed to come in several years ago, there was absolute disclosure on what was going to happen. That was available by house. I was the president of our association at the time and we wrote to every one of our constituents, all 1,000, members or non-members, to indicate what the impact was going to be. We think that disclosure and impact studies are very critical to the process.

1510

The next point we'd like to make is to give you one specific example. We've been disturbed by a large number of comments from people who we think should have known better about the fact that not many people seem to have any kind of ability to tell us what the impact was likely to be, and in fact to this day that whatever formula is going to be implemented in AVA is not known. Since we do have the information, we thought we'd use one specific example.

First of all, the lowest multiplier of market value that we have seen in terms of formula that's been disclosed by anyone is that the tax will be 1.2% of the market value of a property. The highest number is somewhere around the 2% area. If one takes a house which would not be uncommon or untypical in our area, 2,500 square feet and a market price of about $600,000, the results of implementing AVA based on that multiplier is an increase in tax on that house of between 67% and 179%. That is a realistic market value of a house that has in fact changed hands. This is a real example but the multiplier is a question mark. But as I say, 1.2% is the lowest figure we've seen. It hasn't been denied or confirmed by anyone, but certainly not denied.

The question in our minds is, what possible justification could the government have for taking a property tax which is not inconsiderable to start off with and increasing it by that kind of percentage in an era of 2% inflation on the one hand and no new services or infrastructure being provided in the area on the other?

As far as our small area is concerned, apart from the service cutbacks, the only service that has been implemented for at least 10 years, and considerably longer in reality, is the relining of the watermains at a time when, quite frankly, if one flushed the toilet on the ground floor, the water would be cut off on the third. So that was necessity rather than a desire to do anything.

Our recommendation is that the government ought to seriously examine the alternatives to AVA — there are a number of them that are viable — and also improve significantly the process which it intends to use for implementation both in terms of disclosure, dialogue and all those other things. This is in the context that we've had numerous meetings with the minister, who happens to be our member of the Legislature, and we would

certainly like to be part of a solution for all parties. Thank you for providing us with the time.

The Chair: Thank you very much. That leaves us about two minutes per caucus.

Mr Phillips: We're in the same boat you are, and that is that the government knows it wants to change the property tax in the province. We've got two weeks of hearings. I don't think there's ever been a bill with as broad and dramatic a financial implication as this bill with so little public information, and it's deliberate. They know that if the impact studies are out there, there are going to be some very dramatic implications and the people who are going to be hit would be very angry. As I've been saying, they want us to sign a contract but they won't let us look at the building; they won't let us look at the thing we're buying.

It is going to have some very profound impact. The challenge we're into is that there is the need for property tax reform, and the government simply refuses to give us the impact of those so that at least people can be aware of what we're being asked to approve.

The challenge is going to be that this train is running pretty fast right now. We've got another five and a half days of public hearings, one day of what's called clause-by-clause, and then away it goes. Can you give us some indication, if this bill passes, of what the real human implications are for people in your area or the people in Metropolitan Toronto?

Mr de Auer: Perhaps, Paul, you'd like to answer that.

Mr Paul Kellogg: I don't think there's anything new that I could say other than I know, having lived elsewhere, that if we ever talk about north Rosedale, people will shed crocodile tears. I have to tell you, having lived in many areas of the city, that north Rosedale isn't any different from any other neighbourhood. There are houses, most of them not renovated, people living behind old lace curtains, people on fixed incomes, people with basement apartments, triplexes, rooming houses, apartment buildings, co-ops. The implication in north Rosedale would be the same in the city, perhaps an exaggeration in other areas of the city. This kind of AVA tax reform would be devastating.

Mr Phillips: There's an old saying that Ontario helps keep Canada together because everybody in the rest of Canada likes to not like Ontario. I think Rosedale always has that challenge, because it's often used as the photograph of the home that's assessed and paying low taxes. You tend to be the poster person for property tax reform. But you're saying that there are homes and apartments and basement apartments in your area that will mean — what kind of tax increases are we talking about here?

Mr Kellogg: Anywhere up to, as we pointed out, 1.2% to 2% on the actual value of the property, which could translate into 200% of the so-called market value of the property. We don't find ourselves to be much different from other neighbourhoods in the impact it would mean to us. Many people simply can't afford it. I don't care if they're even "comfortable." I'm sure all of you would know what it would mean to you to immediately have your taxes go up one and a half or two times, especially when you're on fixed income. We have a lot of elderly people in north Rosedale.

Mr Pouliot: Welcome, gentlemen. You've said that there was no correlation between people's income and where they live. Thank you very kindly. I was raised on the waterfront in Montreal and for years I thought that people in Westmount made more income. Thank you for correcting me. I'll check it out when I go to Parkdale.

Mr de Auer: No, it was the distribution.

Mr Pouliot: No, you didn't say "little"; you said there was no correlation.

Mr de Auer: Distribution.

Mr Pouliot: Okay. Thank you kindly. Then you went on and mentioned paying for defined services, and you give us the very good example of the sewer and water theory that goes from A to B. But you're about to embark on a lot more than hard services. You're about to go into all kinds of social services: homes for the aged, social care for the elderly. Welfare recipients: You'll pick up 50% of the cost of prescribed drugs for those on social assistance. Transportation system: Rather than 75% for the rolling stock, you'll now pick up 50%. The list is almost endless. That comes with the reassessment. It's all webbed and meshed; it's the big picture.

You've indicated that your taxes will go up from 67% to as much as 179%. Will you be able to maintain a value of $600,000 with this? Because if you're not able to, maybe what you've said at the beginning will become true, that it will not matter so much how much you make but where you live, because you'll have the freedom of choice. How will it impact on the price of property? You'll be assessed fully at $600,000, but then you'll have to wait three years to find out what the real assessment is, because all those changes will take place after the assessment.

1520

Mr de Auer: We're fully aware of that. That's why we want the impact studies first and the ability to establish a dialogue on what can be done about the system. But there still is a difference between the income tax and property tax. The impact on the value of the property will clearly be down. The other aspect, which is the one Paul raised, is that for those who can't afford to pay the tax, people will move out, and that option has always been open.

Mr Ford: Gentlemen, welcome this afternoon. I'd just like to mention your point 3 here:

"Taxation Options: AVA — simplistic answer to complex problem; superficially 'fair' (ability to pay) and understandable (market value) but; expensive to implement and maintain; volatile."

What I have to say is about the real estate: If you go into any real estate office and talk to a realtor — I don't care if there's a dozen in this room — the first thing they'll tell you is "location, location, location." You know that yourselves, wherever you buy real estate. This says, "understandable (market value) but expensive to implement and maintain...no correlation between location and income."

There isn't any correlation between income and location. I understand what you're talking about. I used to be in Rosedale, so I know exactly what you're talking about, the old drapes and everything, and some pensioner

sitting in there. But whether it was through no fault of their own, you have to understand one thing: There's an escalation in the value of that property and ability to pay is this. I always say, unfortunately or fortunately, it's gone up tremendously in value. If they're not taxed at a higher rate, then somebody else has to pick up that extra tax to pay. There's no hope of recovery for that other person subsidizing that person, whether it's in Rosedale, whether it's in Parkdale, whether it's in north Toronto, wherever the devil it is. I'm not envious of anybody. I just say that in these circumstances somebody has to be subsidizing somebody else and this is what we have to get: equity across the board.

I understand clearly where you're coming from, because there are an awful lot of people in this city who are senior citizens, whose husbands have passed away or whose wives have passed away and they're sitting there and they're getting a certain income but the value of their property has escalated. I know some of those houses were bought for $100,000 or $200,000. Now they're worth $750,000 or $1 million, different places around the city.

How do you compensate for one person paying a very, very low tax and having this tremendous equity? Value in our society is placed on whether you want paintings, playing cards, property or anything. That's the way our society works, as you know. So somebody has to pick up the other end. Is that fair?

Mr de Auer: What we're really saying is that perhaps there's a different way of looking at this. Nobody has to pick up anything if my garbage gets collected or something is delivered to the house. I think everybody ought to pay for that particular service. Whether the house is worth $600,000 or $100,000 or $2 million is irrelevant to the service that's provided, and that's all we're getting at. So there's no compensation for somebody who is in an expensive house versus a reasonably priced house. They're getting the same service and therefore they should pay approximately the same price.

Mr Kellogg: I think you're missing a point. I'd like to quote: "Let's be up front. Let's be clear. If ever the people of this country, of this province and of the city are being fed up with politicians and saying, 'Give us the facts. Tell us what's happening.'" If you don't remember us after we leave, just remember that we pleaded for an impact study.

"This isn't about enabling legislation. It's not about enabling legislation, one government to another. This is market value assessment. It's a tough issue. It's a difficult one. It was difficult for us to deal with. It was difficult for the Liberals to deal with. It's been difficult for you to deal with. But at least be honest about what we're dealing with. It's market value assessment." This is from the words of Mike Harris, November 1992.

We are asking for, if nothing else, an impact study first. Let's know what the price of the car is before you place it in our driveway and ask us to sign a blank cheque, whether we live in north Rosedale or Parkdale.

The Chair: Thank you very much for attending the committee hearings, gentlemen. We thank the North Rosedale Ratepayers' Association very much for coming in.

PETER TABUNS

The Chair: We now welcome Councillor Peter Tabuns from the city of Toronto.

Mr Peter Tabuns: Thank you for the opportunity to appear today before your committee.

I'm sure you won't find anyone who would stand before this committee and say that we currently have an equitable and reasonable property tax system in Metro Toronto, and I don't think there's any question that changes will have to be made in the name of fairness. However, Bill 106 proposes to make a series of shifts and deletions which I think ultimately will be highly destabilizing and ultimately not one step fairer for either businesses or residents.

Whether you want to call it actual, current or market value assessment, the latest plan contains the same principles of market value assessment that were soundly rejected by the people of Ontario. The same people may also remember that the Minister of Municipal Affairs, Al Leach, pledged that he would "never support the imposition of MVA in Metropolitan Toronto," yet that's what you're considering at this moment. This is a copy of Mr Leach's campaign statement on the matter.

My colleagues and I are still waiting to hear back from the province about the study of the impact of MVA on residents and businesses based on 1994 values. The last time we had a chance to debate this issue we had the 1988 values that Metro Toronto provided to us. I gather there was an update done. I think it would be at the least fair to allow people who will be affected by this tax increase to see what their new taxes would be. Judging from the lack of response to our request for the figures, I am concerned that the numbers are probably quite frightening.

The mammoth task of obtaining accurate assessments for some four million properties does not seem to be going ahead — you seem to have had difficulty finding companies that would be willing to assist your provincial assessors in doing this work — yet the government seems determined to push this through, and I think without regard for the consequences.

Initially there was support in Toronto from the business community for all of this, but this is turning into a chorus of questions as business people realize that the removal of the business occupancy tax causes two immediate problems.

The first of these is that this would create a huge tax shift to commercial tenants from landlords in a huge number of cases where bulk leases are in place.

The second problem is obvious: Where is all the lost revenue going to come from? Does the province seriously expect municipal councillors across the province to obtain that revenue at the expense of homeowners and tenants? Perhaps the provincial government could simply issue a notice to the taxpayers when they receive their cut, something to the effect of, "Please remit your rebate directly to your municipality," because I think that's what you'll see in most instances.

The option of tax deferrals for senior citizens and disabled persons will be of little comfort to them. Putting a mortgage lien on their property to satisfy an assessor's

notion of equity will hold little appeal. Even if some people were to take advantage of this scheme, the phased-in increases will be more than many can bear. Those with relatively stable jobs are not guaranteed corresponding increases in pay, let alone jobs themselves.

I think there is general agreement across the province, across Metro, that the current system isn't working. That's clear. Successive panels have dissected and studied the options. In this instance, however, I think the solution that is being put forward is one that is not workable and not acceptable. I'd urge you to take a step back, study the impacts carefully, let the people who will be affected by the impacts know precisely what the dollar figures will be for those impacts, and don't go ahead with this flawed alternative. Thank you.

1530

Mr Pouliot: Thank you very kindly for your presentation and your time and dedication, Councillor. We're trying to slow the process down, so we have a filibuster, and when you've only 15 as members of the third party, it's — I'm not complaining; I'm just stating it — a little taxing. During the few hours' sleep I had yesterday I had this dream.

Mr Rollins: That must have been a nightmare. Have you had breakfast yet?

Mr Pouliot: It was a nightmare and I want to share this with you. I was no longer a member of the Legislature — I've been here 12 years — I was an assessor in the city of Toronto.

Mr Tabuns: That was indeed a nightmare.

Mr Pouliot: It was so difficult, I woke up and I was happy to come back here to the Legislature. This was one of the most difficult things to do. I was actually frightened.

The election is in November. The assessment is by April 1, 1998, 3.8 million units, an undertaking so massive it has never been contemplated in North America. It's being done by outsiders, by instant coffee assessors, some with a minimum of one day of training.

You will be the recipients of a downloading of unprecedented proportions. With all this happening, you'll have to strike your interim tax levy, then you'll have to go to the meshing and the webbing and the distortion, the amendments and everything else. Do you know what I'm thinking? I want your comments on this. That with this nightmarish experience of last night, maybe I'll still prefer to be an assessor than seeking re-election in the city of Toronto.

The riding I represent, Lake Nipigon, runs to Hudson Bay. It's the largest geographically in the province. We asked municipal officials — it's not their fault — what does this mean? What is the menu? Who's going to pay for this? What about administration? What about the cost of this? Less than nine months before implementation no one seems to be able to answer the questions. In our case, who's going to pick up the cost of the ambulance? What about our hard services: capital, policing etc? Confusion. Nobody seems to be able to give us the figures that we're after so we can represent people to the best of our ability. Are you having the same experience in this sophisticated environment?

Mr Tabuns: We have the same concern, that what we'll inherit should all of this legislation go through will be a very chaotic environment. It will be very difficult for any municipal government to function in a situation where the tax assessment that goes out will be questionable and thus subject to widespread appeal. We won't know what our revenue is, just as people won't know what their taxes are, until the day the bill finally comes through. Given on the one hand uncertainty about our revenue, disturbance on the part of the taxpayer and confusion as to exactly what we're going to be paying for and in the end how we pay for that, there is great concern not just among the politicians but among administrative staff, not just at Toronto city hall but across Metro, as to how this thing will actually work.

One of the fears we have is that we'll inherit the same sort of chaos that descended on the family support plan. There will be people unhappy at both ends, people who will be remitting funds and people not getting the funds that were remitted, and just a situation where everything has come apart.

Mr Pouliot: They're expecting 900,000 appeals. That's a mess. That's an awful lot of appeals.

Mr Tabuns: Well, it's quite a job creation opportunity, I'm sure.

Mr Pouliot: I guess we'll have to go and discover some more boxes someplace in Downsview.

Ms Bassett: Thank you for your presentation. To pick up on my colleague Mr Pouliot's statement on the appeal situation, our system is based a bit on what's happening in BC. As a Star story just this week or last month pointed out, they've had a 2% appeal rate. That would be far better than the current appeal rate where we're losing, according to the municipality, $100 million a year in revenue. This is one of the reasons we feel this system would be good.

Also, in terms of the business occupancy tax — you are worried about what's going to happen — we will save, of course, significant moneys in administrative costs. We already lose $200 million because it's impossible to collect from tenants who vacate their properties or have underground businesses or whatever.

Municipalities are also going to have the local option to decide whether they want to recover the revenue, be it from the BOT or not. They can use the administrative savings to reduce the amount recovered and they will be able to pass it on in lower taxes if they wish. Practically everybody on all sides of the business community has asked us to get rid of the business occupancy tax. We think it's a good move, and by giving the municipalities the power to spread the revenue loss over bases that they want, over the wide-range tax base, we think they will do it in the way that best behooves their communities. Municipalities have been asking for that responsibility for a long time. Would you argue with that?

Mr Tabuns: Let me go through a number of the points you've made. First, about the situation in British Columbia and the low rate of appeals: Within the last six months there has been a conference at the city hall about property taxes and looking at the British Columbia system. People from British Columbia who administer their system felt that what was proposed in Ontario was

going to result in chaos, because they could not see how we could assess all these properties in the time frame that was allotted. They felt they were not in a position to do that, even with the experience they've had over the last few decades.

Ms Bassett: But aren't their appeals way down?

Mr Tabuns: I won't argue that, Ms Bassett.

Ms Bassett: That's all I was saying.

Mr Tabuns: But I'd like to say that what you're proposing is a process that will result in a large number of faulty assessments, because I don't see physically how you're going to do the assessments properly in the time you've allotted. That will create chaos.

Ms Bassett: You don't, but that's hypothetical.

Mr Tabuns: It's true it may be hypothetical that a train will crash through a bridge and fall into a river valley, but if the bridge isn't there, the chances are very high that hypothetical possibility will come to be.

In terms of transferring the burden from the business occupancy tax to other categories of taxpayers, I'm sure you can appreciate that if you were to propose a substantial tax cut for corporations in this province and shift the burden of that tax cut to individual income taxpayers, that would not be politically acceptable. For us to shift tens of millions of dollars in taxes paid by businesses now to individual homeowners, including seniors —

Ms Bassett: I don't think you'll do it, because you'll be the people in charge of doing it. You won't do it; you'll put it on to the businesses that can afford to absorb that cost. We are giving you that responsibility.

Mr Tabuns: We will be putting it on to many landlords, many of whom will have leases where they're going to have difficulty passing those expenses on to their tenants. I think you're going to create a fairly chaotic situation in the business community. You need to talk more broadly to the business community about the impact of this measure. I don't usually come here to argue for the business community, as you might be aware, but you need to talk to them extensively because I think you will find real difficulties for them with this proposal.

Ms Bassett: We haven't so far.

Mr Tabuns: Fair enough.

Mr Jim Brown: FRPO was in I guess earlier today. I know how much the city promotes and tries to protect tenants. But I was distressed — and maybe you could clarify this, maybe I didn't understand him properly — that he was saying that tenants in the city of Toronto pay up to five times as much as homeowners. I have a problem because if that's true and then you're trying to convince tenants that you're on their side, there's something inconsistent with that, something incongruous. I don't know. He must be wrong?

Mr Tabuns: I appreciate the question, because I'm a tenant in a high-rise building and I pay something like $3,000 a year in property tax. Previously I rented a house; I paid $1,600 in property tax.

Mr Jim Brown: So you're doing it to yourself?

Mr Tabuns: Since I don't set the tax rates between commercial and residential, I don't think that's an accurate statement. The difficulty for us is what you're proposing, which changes the Rent Control Act, would not guarantee that any reduction in taxes for tenants would be passed on to those tenants. Our expectation is that any reduction in taxes to tenants would simply stay in the pockets of the landlords. Set up a mechanism that guarantees complete flow-through and give us a phase-in mechanism, and I think you would find many cities, certainly the city of Toronto, picking up on that.

1540

Mr Phillips: Just to comment on the business occupancy tax: You've got your finger on a problem. The Canadian Federation of Independent Business — which I have a lot of time for; I think they look at these things carefully — said, "Ironically, it's likely that the elimination of the business occupancy tax will harm our sector."

They know two truths: One is that municipalities have to recover the revenue. They've all told us, without exception, that they will put it back on the commercial-industrial sector. When somebody is paying 75% and somebody is paying 30% and you're going to average 42% at the end of it, the one that's paying 70% goes to 42% and the one that's paying 30% goes to 42%; you don't need to be whatever to figure that out. It is going to create a lot of problems.

I'll make another comment: You've made a good point on the impact studies. It's unacceptable that the Legislature is being asked to approve sweeping property tax changes that will have a profound impact on people and the government will not tell people how it's going to impact them. I know why they're doing it: because they know people are going to be angry. This is a cynical way of keeping people from getting angry. They won't be angry today, but I guarantee you they'll be very angry when finally it hits them and they say, "Why didn't you at least tell us this was going to happen?" There's no question the government knows what's going to happen and won't release the information, including to us. We're going to have to sign this thing in three or four weeks —

Interjection: In blind faith.

Mr Phillips: In blind faith, as my colleague says, and it is a clear plan to deny the public the information. It may be good politics, because there's no doubt they'd be lined up outside the doors here once they knew, including a lot of the business sector, but it's a very deliberate ploy. We can't get it out of them. We tried to pass a motion in the Legislature, which was rejected by the Conservative members, saying that the government should release its impact studies. It wasn't the cabinet that turned it down; it was the backbench members.

The challenge here, Peter, is that I don't think there's a lot of sympathy across the province for the city of Toronto, because there are the pictures in the paper about the $1-million Rosedale mansion that's paying very low taxes, so that's always put up on the slide and there's the enemy.

I'm almost having difficulty forming a question for you, because I think we're heading down a very unfortunate track here, but the question would be, how much has the city of Toronto tried to get the impact studies from the government and what's been the result of that work?

Mr Tabuns: I'll answer that last question; I just wanted to comment on some of the things you've said, Gerry. I gather we filed a freedom of information request

and we're having difficulty getting the information even though we've filed that request for information. I don't think we should even have to go that route. I think it should have been released at our request.

There are just a few other things, though. It's interesting that the Canadian Federation of Independent Business came and stated that there are problems with this. The analysis from our economic development section is that the removal of the business occupancy tax will shift a large portion of the burden from the largest and most successful companies in Toronto to all the small mom-and-pop businesses on the retail strips in Toronto. I think that's of great consequence for the viability of the city, not just the city of Toronto but across Metro. If you have all those strip plazas suddenly taking the load from the major banks downtown, that's quite a hit and I think very problematic for the city's stability.

I think you're quite correct that the city of Toronto doesn't get a lot of sympathy in the rest of the province when pictures of large houses in Rosedale are shown. When we went through the MVA fight the last time with Metro, I was living in a house that was about 12 feet wide on a property that had a 15-foot frontage. The house beside me was identical and the house beside that was identical, so we were about a 45-foot frontage and together we were paying over $5,000 in taxes. If you look at a home in Scarborough on a 45-foot lot, many of those are paying $4,000, $4,500 in taxes. So the aggregate for those three houses, same frontage, was more than what you're paying in Scarborough.

I'm sympathetic to a person in Scarborough who has built or bought in a low-density area and is paying a tax that's more than their income can carry. But the reality in Toronto is that because of density, per linear foot in any street there's a lot of tax being collected, and that isn't going to play well in the rest of the province. But I would say there are other places in the province that are going to have difficulty with what is proposed, not just us, because they're going to have to deal with the volatility issue, they're going to have to deal with the business occupancy tax issue etc.

The Chair: Mr Tabuns, thank you very much for coming before the committee today. We appreciate your input and your experience that you shared with the committee.

TOWN OF OAKVILLE

The Chair: We now welcome the corporation of the Town of Oakville, Councillor Kevin Flynn and Ms Séguin. Welcome to the committee.

Mr Kevin Flynn: First of all, I would like to thank your staff here, in particular the clerk of the committee. He was quite accommodating. I think we had to change around a few of our times to allow me to address you this afternoon and I certainly would like to extend our thanks.

My name is Councillor Kevin Flynn and I have been asked on behalf of the council of the town of Oakville to present our views on Bill 106, the Fair Municipal Finance Act, 1997. I am also the co-chair of the Oakville Citizens' Committee on Property Tax Reform, a very active group of local citizens from a variety of disciplines that have been meeting over the past few years to address the property tax reform issue. Accompanying me today is Michelle Séguin, the director of finance and the treasurer of the town of Oakville.

I'd like to start by expressing my appreciation to the government for attempting to reform property tax. I don't think there's any question that I haven't heard anybody say that isn't in order and is necessary. The proposed bill, however, in my opinion falls far short of real reform. It simply replaces MVA with another form of MVA called AVA. The lack of an impact study I think is extremely important and should be addressed by the government if possible, because it is simply unfair to take this type of a giant leap without informing the residents of my community or the citizens of Ontario of the potential impact.

I'd like to address three main concerns today that particularly impact on the town of Oakville. Those are local government accountability, what we see as a potential increase in residential property taxes and the tremendous impact this bill will have on business improvement areas. I'd like to start by addressing local government accountability.

The town of Oakville is on record, has been on record for some time and still is on record, in promoting local government that is accessible and is accountable to its constituents. We feel that Bill 106 dilutes the accountability of local councils in a tiered system by giving most of the responsibility to regional councils. In particular, it gives regional councils the authority to establish the tax rates and to establish the phase-in policies.

We believe if the tax rates are established by regional councils, it reduces the local government accountability. Bill 106 allows new property taxes to be established, albeit very restrictive, but they must be established on a region-wide basis. Therefore it is extremely difficult to meet the needs of any particular community within the region. The legislation does allow authority to be delegated, but the legislation that allows that is very restrictive.

We recommend that you soften the restrictiveness of this legislation that allows you to delegate to the lower-tier municipalities.

I'd like to address phase-in policies as well. The authority under the proposed bill would rest at the upper tier and there's no provision at all in the bill to delegate the responsibility for the phase-in policies to the lower tier. We again believe that this reduces local accountability and we wonder how the implementation of a phase-in program to smooth the impact of CVA or AVA is any different than the recent phase-in that we have implemented in the town of Oakville to smooth the implementation of region-wide market value assessment.

1550

The lower-tier municipalities are the people who are responsible under the present system for the implementation of phase-ins. We believe that we are best suited to implement or to present a phase-in policy that best meets the needs of local citizens. We believe that lower-tier municipalities must administer the phase-in program because we're the ones that are going to take the calls from the ratepayers after this is introduced.

We recommend that you incorporate a provision in the legislation to allow the authority to phase in to be delegated to the local level.

We believe that Bill 106 as proposed will ultimately lead to an increase in residential property taxes as a result of the following. The province, as we understand the proposed legislation, will establish the tax ratio bands which limit the extent to which multiresidential, commercial and industrial taxpayers can pay in property taxes as compared to residential taxpayers.

We anticipate that the current ratios in most municipalities will be outside the range established by the province. If this is true, then we expect that there will be tremendous pressure by the commercial-industrial sectors on regional council to drop our ratios within the range. We feel if that is done, there is only one way that those extra costs can go and that is right on to the residential property tax bill.

If the BOT is eliminated, which is something that the town of Oakville agrees should happen, and it cannot be absorbed by the commercial-industrial ratepayers within the parameters established by the province, then surely this will cause another shift to the residential tax base.

Reassessments in our experience generally result in shifts in the share of regional taxes between municipalities within a region. Oakville's share in particular has in general been increasing every time there is a reassessment. We anticipate under the proposed reassessment this year that this will continue.

One final area I'd like to address is the impact Bill 106 has on the business improvement areas. We have two business improvement areas in the town of Oakville and within the region of Halton there are three more, those being in Milton, Burlington and Georgetown. We feel that Bill 106 has the potential to destroy one of the key grass-roots organizations of our community, those being the BIAs.

BIAs help the downtown areas in many communities of Ontario to survive and thrive, but what Bill 106 proposes to do is to eliminate the base on which the BIA levy is applied, the BOT. Currently BOT is applied against the tenant or the operator of the business. Those who pay benefit most from the work of the BIAs, and at present that is the tenant. Those who pay are involved in the administration and the operation of the BIA. If you apply the BIA levy against the property owner, who in many cases is not even an Oakville resident or businessperson, the "say for pay" philosophy will more than likely kick in, which would mean that the property owners would then become the members of the BIA.

The BIAs have held a meeting in the region of Halton, those BIAs, as I said before, being from Oakville, Milton, Burlington and Georgetown, and are extremely concerned. They have requested a hearing, and I understand they could not be accommodated in this round of hearings. However, they have requested that they be heard in Port Colborne. I would urge the committee members, if they have the power to do that, to hear from the BIAs because they are bringing a very strong and sincere message to you.

The Ministry of Finance staff were alerted to this problem and we haven't heard any solutions forthcoming. It's of great concern to our local council. Both the downtown Oakville and Bronte BIAs in Oakville are excellent partners in promoting our downtowns and have assisted in the past to keep both downtowns vibrant. Oakville is proud of our downtowns and they are an integral part of the identity of Oakville. To lose the BIAs as a result of this legislation would be a shame.

I would like to now turn it over to Michelle Séguin, who will close our submission.

Ms Michelle Séguin: Thank you, Councillor Flynn. Mr Chair and members of the committee, it is a pleasure for me to present administration issues with respect to Bill 106. I probably represent other municipal treasurers and their concerns with respect to administrating the change, the current value assessment and the phase-in program.

Probably most of the presentations you've heard so far focus on the negative; it's easy to just bypass the positive. But I'd like to spend a moment or two to indicate what we feel some of the positives are. As was indicated earlier, municipalities have requested that the business occupancy tax be eliminated because it is extremely difficult to administer and often we can't collect those taxes, albeit there are some problems with respect to that. There are some implementation issues, just as Councillor Flynn indicated, such as how you actually levy the business improvement areas levy if it has been applied on the BOT.

As well, I believe that the phase-in program over eight years is a positive move, moving it from the current four years. In certain areas within the province it will require a longer phase-in program in order to implement a current value assessment from the current outdated MVA system in some municipalities. Also, it's a one-time phase-in program, and we agree with that. A phase-in program is extremely time-consuming and difficult to administer so if municipalities know they only have to go through this process once, they will be more than pleased to put it in place.

In Oakville we implemented a phase-in program as a result of the implementation of regionwide market value reassessment January 1, 1996. It's gone smoothly; however, we are feeling some of the bumps and grinds as a result of that, especially now that Assessment Review Board hearings are going on and there are some changes in the original assessment base on which we based the phase-in programs. Some of the taxpayers can't understand at times why they actually owe us money back as a result of getting a reduction in their assessment. Some of these issues the municipalities will have to address in putting together their administration.

Another key area that I believe is very positive is that it simplifies the calculation of the property tax and how to explain to the property taxpayer what their assessment is. Currently the assessment is based on the market value of the property multiplied by a factor. You come up with an assessment number which doesn't really mean much to anyone. Then you take that assessment and you multiply it by a mill rate, which again is a difficult concept to explain. Under the system being proposed, it's the current value of the property, which is $250,000 times a tax rate, which is a lot simpler to understand, which is the actual taxes payable on the property.

As well, there are certain systems that are suggested to be streamlined such as the assessment review process. We agree with that. It will also streamline the farm tax rebate, albeit certain municipalities that have a lot of farm land will be affected by the reduction in the property taxes to 25% of the residential property and it may affect them severely.

Lastly, the effective tax rate becomes very visible under the bill. For the effective tax rate of commercial-industrial, the amount of taxes that they actually pay as compared to the residential property owners was always very difficult to calculate and difficult to explain. In this case we'll be implementing tax rates and it will be very clear how much commercial-industrial taxpayers actually pay, so it makes the effective tax rates visible, albeit it will make the local councils a lot more accountable with respect to how much they are taxing each class.

With respect to getting into the more negative issues and addressing some of the administration that municipal treasurers such as myself will have to address, there are three areas I would like to discuss: the phase-in program; the implementation of the current value assessment; and the information that is required by municipal treasurers and staff to explain to their councils what impact Bill 106 and some of the mega-week announcements will have on their community and their ratepayers.

1600

With respect to the phase-in program, as Councillor Flynn discussed earlier, we wonder why the authority to implement the phase-in program has been left at the upper tier. We believe there should at least be a provision in the legislation that it can be delegated to lower-tier municipalities. I believe that in some regions it should probably be at the upper tier but in some regions, such as the Halton region where we've just gone through a region-wide market value reassessment, January 1, 1996, based on 1992 market values, local municipalities can handle the phase-in program and the impact will more than likely be a lot less severe than in some other areas.

As well, we are the ones that have to administer it. We're going to have to amend our systems. We answer the questions of the public. The more complicated the policies that are being implemented, if it is done at the upper tier, the more time-consuming and expensive it will be at the lower tier to actually implement.

With respect to other concerns with the phase-in program, obviously we'd like to have some of the information as soon as possible. You've had other presenters here today that would like to see impact studies; so would we. We've had numerous discussions with the staff at the assessment office as to what type of information they will provide us so that we can actually do our work. When we went through the phase-in program and the implementation in 1996, the assessment office gave us a tape just before the new assessment was implemented. We called it a pre-flip and a post-flip.

As the assessment office was actually doing their reassessment, they updated both sets of rolls at the same time so that we could actually compare the tapes, apples to apples, so that if there was an adjustment to be made on a property, it was made on both tapes so that when we did our phase-in program — the legislation says we can only phase in the amount that the property owner is affected as a result of the change in the assessment — it's truly just the change in the assessment that we are phasing in, not any supplementary assessment that is being added.

Often what happens with a reassessment is that as the assessors go out and do their reassessment they find new assessment and often they just add those new assessments to the new roll. That is critical because that represents growth for municipalities and it actually translates into pure tax dollars. In these days of zero per cent mill rate change for local government — in the town of Oakville we've had a zero per cent mill rate change for the last four years — it is critical that the growth in assessment not be gobbled up, if I want to call it that, in the current work the assessors are doing. They really need to track it separately so that we can know exactly what our assessment growth is.

I must thank the staff of the ministry. They are working with municipal officers from various organizations and have had numerous discussions. However, we haven't had any commitment with respect to a pre-flip, and tracking assessment growth separately has always been a problem. I'd just like to alert you that it is a key issue for municipal government.

Implementation of current value assessment: It was mentioned earlier by some of the members that we have an interim bill that we usually calculate in January and issue in late January. The timing of getting a roll in order to do that right now is very tight and there may be some impact on the cash flow of municipalities. I would just like to request that the government take that into consideration in discussing the timing of these different rolls. The final roll I think has been discussed to be delivered in April and that, again, would make it extremely tight for municipalities to bill their taxes.

Lastly, there is some information that municipal finance officers such as myself really need in order to provide what the impacts are to the ratepayers and to their councils. As well, as was mentioned earlier, we can't determine how much the commercial-industrial taxpayers can or cannot absorb of the business occupancy tax until we actually know what the tax ratio bands are, what the transitional ratios are, specifically those for each municipality, and the educational tax rate.

I believe the objective is that the taxes paid by the commercial-industrial taxpayers before will more than likely be what they are after. However, if that's the case, we need to know how much BOT they can absorb and if any of that will actually have to be transferred to other classes, and specifically to the residential taxpayers.

As well, there are regulations to accompany Bill 106. The sooner we get there and we get those, the sooner we'll be able to really, truly evaluate some of the impacts with respect to assessment.

I believe probably our time is over. We appreciate the opportunity to discuss these issues with the committee today. Thank you.

The Chair: Thank you very much for attending the committee and making your presentation. There are draft regulations available. The clerk has some; if you haven't got them, I'm sure he'd be glad to give you a copy of them.

BRAMPTON BOARD OF TRADE

The Chair: We now welcome the Brampton Board of Trade, Mr Bob Malcolmson. We're very glad to see you again.

Mr Malcolmson: I will be brief so that maybe you can get back on your time schedule. If you don't want to give me the whole 20 minutes, that's fine. I know you want to get back into the Legislature.

Good afternoon, ladies and gentlemen. My name is Bob Malcolmson and I'm the executive director for the Brampton Board of Trade. Just to give you a little background, the board of trade has over 1,000 members and we employ over 60,000 people in Brampton and the region of Peel.

Our purpose as the board of trade is to represent and actively promote the interests and profitability of Brampton business and it's members. We have three major goals, two of which are to build and maintain support for control of taxation and expenditures affecting the tax community of Brampton, and another one is to create an economic environment which is positive and attractive to new and existing businesses.

Today we are here to give you thoughts on Bill 106 and lend support, where appropriate, for the changes outlined in this bill. I can tell you we feel the government is on the right track to get Ontario's fiscal house in order.

Three years ago — and I've been a couple of times — the board of trade adopted — and I've told you this before — an overall position that any additional government spending at any level on programs must be funded from current budgets by reallocation of funds from existing programs and that the board of trade would oppose additional government spending through increases in taxes at any level. Our position today remains unchanged.

In our letters over the past three years to all levels of government we have advised government leaders to put their financial houses in order and adopt a philosophy of spending fewer dollars than they bring in. It is essential to look at tax reduction and reallocation of funds from existing programs to reduce the tax burden. We would like to commend the government to date for diligently trying to fulfil our request.

The Brampton Board of Trade takes the position that governments municipally, regionally and provincially must be committed to downsizing of government, cost reduction, accountability, less government and the elimination of duplication.

This whole restructuring bill is about taxes and the cost of government to individuals and business. The government must be applauded for proceeding to introduce changes to an outdated tax and assessment system. The government must also be commended for sifting through, embracing and listening to recommendations introduced by the Fair Tax Commission and the Greater Toronto Area Task Force. Like my colleagues from Oakville, I sat through some hearing down at Halton region until the bleary-eyed hour of 2 am. It is very important that this restructuring take place.

1610

Property tax reform is the single most important problem facing Ontario. A fair, stable, efficient and accountable property tax system is the key to preserving Ontario's long-term competitive nature in this global economy. We feel the government of Ontario, by introducing Bill 106, is attempting to address a number of contentious and complex issues that have been longstanding taxation problems that have plagued previous governments of all political stripes.

We would like to address the following areas we feel need a second look and possibly improvement or strengthening in the proposed legislation.

Property classes: We feel the principle of creating additional business property classes would open the property tax system to all manner of discriminatory practices. For example, in a community where there is one major employer and the remaining businesses are a collection of small retail and secondary support industries, that a provision could be put in place to give the larger employer a lower mill rate, thus causing taxes to rise on all other property classes, including the smaller employers, is a dangerous scenario. Or the reverse: We could see the tax assessment rise on the major employer and lower on the other businesses. This could be enough for that major industry to move out of the community.

A municipal council could use such powers to provide special tax options or incentives to attract a single major employer. It is fundamentally unfair for a municipality to offer lower taxes to newcomer businesses, if at the same stroke of the pen it means to impose higher taxes on competing businesses which may have been providing financial support and jobs to that community for many, many years.

Our recommendation: We caution and feel that the legislation needs to be strengthened in this area to ensure that municipalities should not have arbitrary discretion over the establishment of additional business property classes.

Business occupancy tax: The Brampton Board of Trade supports the removal of the business occupancy tax. The problems with the tax and its makeup are many, and the assessments were time-consuming and a definite tax collection problem for municipalities.

I noticed that in the Oakville presentation they also supported the elimination of the business occupancy tax. However, we feel local councils — and we're very positive of this — will fold the business occupancy tax into non-residential property tax, thereby making it an obligation of the landlord to collect. This will cause a number of difficult transition problems, because as you know, business occupancy taxes may vary anywhere from 30% to 50% of the realty tax rate for businesses in the same building. How will this be worked out in order not to have a major impact on small businesses at a 30% rate? I know one of the gentlemen over here mentioned going from 50% down to 42%, and from 30% up to 42%. That is a major concern for the business community.

It can't just be expected that the landlord will be able to pass along a major tax increase to a tenant, because he does have tenant leases and regulations that he's dealing with. Our members are suggesting to us that the change must be fair to tenants, landlords and municipalities, and that if the tax changes were not handled fairly they could have a major impact on small businesses and, in some cases, put them out of business.

Our recommendation: We feel the legislation must be improved to deal with these issues and a mechanism put in place to intervene, where necessary, between the landlords and the tenants regarding a pass-through of any realty tax increases caused by the elimination of the business occupancy tax.

As an aside on the seniors area, I read through the act and the legislation appeared ambiguous with respect to the special treatment for seniors and who will make the decision on what is fair treatment for them. For example, what about a senior citizen on a fixed income who is currently paying $1,600 a year and under AVA this could go up 20% to 30%; or a senior who has been in the same property for 50 years and because the assessor comes along and determines that his property, which is similar in size and location to the property on the next corner which has a condominium on it, could be sold and redeveloped into a condo complex garnering more taxes? I don't know if this could be arbitrarily left to one individual to determine.

Our recommendation: We feel the government must strengthen this portion of the legislation and not leave these situations to chance.

In summary, the business community recognizes that they must pay their fair share of taxes. They also understand that we cannot continue to run on a tax system which is antiquated and does not fit the needs of Ontario going into the new millennium. The government is to be congratulated on having the fortitude and forebearance to address and largely resolve many of our property tax problems. Bill 106 merits widespread support from Ontario's taxpayers, as the legislation will result in a significantly improved property tax system in Ontario.

Thank you for your time. If there are any questions, I will try and answer them for you.

Mr Phillips: Thank you for a thoughtful presentation. I appreciate it. I want to start on the possibility of creating additional business property classes. That's a fairly important issue for the committee because the government has indicated that they are going to bring in some companion legislation in the next few months to allow that to happen. I think we've had probably about six or seven different business groups here advising us on this and all of them agree with you except — I'd have to review the Hansard — it seems to me that the chamber of commerce this morning had a slightly different view on it. As I listened to them I thought they had a slightly different view.

Mr Malcolmson: Which chamber?

Mr Phillips: The Ontario chamber, but I may have misheard them. It's an important point, and I was interested. CFIB had the same recommendation as you did, and that is to not permit additional commercial classes. Can you expand on that — I know you've got it in your brief here — just to help us a little bit on your concerns if that were allowed to happen?

Mr Malcolmson: Mr Phillips, what I said was that by creating additional business property classes, taxes could open up to a manner of discriminatory taking of action. I don't think a municipality should just arbitrarily be able to make up these classes. It should be legislated so that it is controlled right across the province. Otherwise it comes down to a community where a special-interest group could take control of the situation and take advantage of a municipal council. If you're going to have property tax classes, it should be legislated by the province, not arbitrarily determined in each municipality.

Mr Phillips: That's interesting, because the others felt as a matter of principle that just because you have a small business selling jeans, as one group said, a small store, or a larger store selling blue jeans, they should have the same tax rates. But you wouldn't have a problem if there was a different tax rate for those two retail stores based on size?

Mr Malcolmson: It depends on the site. Right now, you've got the zoning structures and the tax structures so that a box store can come in. Or, for example, let's take downtown Brampton: You had a hardware store that had a certain tax base. Down the street five blocks, because it was zoned industrial, the same size of hardware store was at a lower tax rate. Is that fair or is that not fair? I think you have to look at that structure and put it in place so that it is fair for all who are involved. Of course, then you get into the levies and the business taxes on BIAs and so on and so forth. You have to be very cautious on how you come out with these property classes, specifically for businesses.

Mr Pouliot: Thank you on several fronts, Mr Malcolmson: for your time, your thoughtful presentation and your good optimism vis-à-vis the future.

On the one hand you applaud the government for its endeavours and on the other hand you plead that property taxes not be increased, that the difference between the savings under BOT will be compensated either by increased assessment or by municipalities tightening up their belts and operating more efficiently.

You also, I take it, assume that this is a revenue-neutral endeavour, which it isn't. It cannot be. The government does not deny that. There's a discrepancy.

The town of Oakville — and I thank you, Madame Séguin. Madame Séguin works the books. She knows what takes place: money coming in and out. Oakville, Mr Malcolmson, is not a poor community. It is one of the wealthiest communities, not only in Ontario, in all of Canada. They have increased assessment, not unlike Brampton, not unlike Oshawa. They've got those giant plants in Oakville, which is not exactly the same situation, but the BOT, suffice it, will cost $16 million in revenue.

1620

Oakville, your predecessor as a presenter, says: "Look, there is no possible way we can enact $16 million of new efficiencies or collect $16 million of assessment, so if the bottom line remains the same and we provide the same service, we're going to have to pass that $16 million, if we can't find a wrinkle to go and hit the majors, to commercial and residential."

If they say this with all their strength, their prominence, can you imagine what other municipalities in the province are saying, whose shoulders are not as broad, when they see all that flow of downloading and they're saying right at the beginning: "Some 50% of yesterday's tax levy, the new costs starting in January; I can't go to my final levy before August. Who's going to pay for the

interest rate for the money borrowed to render the new services in January?" Their fiscal year starts three months after. Those things have to be addressed and reconciled in the real world, because bankers, like it or not, charge interest rates even to municipalities.

Comments, please. I don't have answers because I don't have the information. It's locked in some vault. It's a secret of the highest order and only a privileged few have access to the information that I need on a daily basis to do my job. I'm suffering, sir, and I need your help. What am I to do?

Mr Malcolmson: I guess I need a bit of clarification, because I heard their presentation and I don't know where the $16 million came from. Was this to do with the business occupancy tax?

Mr Pouliot: Yes. Mind you, there might be a distortion. Not a number, because it's unusual. They have those. The square footage is immense. It takes on extraordinary proportions. The cost there is $16 million that they have to make up someplace.

Mr Malcolmson: So when the business occupancy tax comes off in Oakville, they're losing $16 million and they're not going to try and find a way of recouping that by going to the landlords and asking them to pay that and have them go to the tenants?

Mr Pouliot: Yes, but in this case the landlord might be exempted because it is so big and their criteria are this narrow. It's much easier to take a sidecar or a sideshow and hit the small or middle-sized ones.

Mr Malcolmson: I live in Halton region and I can assure you that the region of Halton and the municipalities in Halton will certainly come up with a way of not losing $16 million. They've never lost yet and I don't think they will in the future.

Mr Jim Brown: Nice presentation; nice to see you here again. The business occupancy tax reflects the difference in the size of businesses. If that comes off, there's no reflection taxwise in the size of business. I don't totally understand what you're saying when you talk both of the property classes and the business occupancy tax. We'd be removing a benefit, I guess, for small business, but are you suggesting that we may give that back to small business, only the province would set that class up as opposed to the local municipality? I'm having trouble understanding.

Mr Malcolmson: You've got a certain number of property classes there, and my reading and the way I understand the legislation is that the municipalities can come back, that there can be different classes set up over and above that in case you happen to have a different type of property or business you want to tax. I don't think it can be left up to the discretion of a municipal government or council to do that.

In regard to the second part, the business occupancy tax coming off, I don't think there's any business in Ontario that believes that occupancy tax is going to come off and they're going to save 30% on their taxes. I think they understand full well that there's going to be a restructuring of that and it will be put in place and the municipalities will collect it through realty tax only, so now you're not paying two taxes, you're paying one tax.

The concern our members have is that they could be in the same building as another operation; they're paying 30%, the other operation is paying 75%. Mr Phillips raised the point that when the landlord takes over, he can't go along and say to the small business person, "You're now at 50%," because that could put that small business person technically out of business. I think the government has to look at that and say, "What is going to be fair?" We understand there's got to be a change, but we have to know what's fair and appropriate.

Mr Jim Brown: So you're suggesting that the government, not the municipality, set up a separate rate or a separate class for small business?

Mr Malcolmson: But then you're getting into more bureaucracy trying to figure out what that is. I don't know how you're going to do it. That's why I said it's got to be clarified.

Mr Jim Brown: But if you don't do something, you're taking away a benefit that small business enjoys through lower occupancy tax.

Mr Malcolmson: That's right. You're going to have to do something.

Mr Jim Brown: The second thing is that you mentioned seniors. You're suggesting that we do something about the problem with seniors.

Mr Malcolmson: The residential property tax, yes.

Mr Jim Brown: You're suggesting that we do it, not the municipality. I think that's what I read in your recommendation. What would you do?

Mr Malcolmson: Again, I guess the concern I have is different strokes for different folks. Because I happen to live in Halton Hills — I live in Halton Hills, not Georgetown; I just wanted to clarify that for Hansard — could I be treated differently than if I lived in Oakville just because I have the same property? Or maybe it could come down to the municipal level, where I don't particularly get along with the municipal treasurer. Does that mean I get a different read on it than if I'm somebody else? I think it can't be left up to the discretion of an individual to determine.

When we went through the MVA fiasco at Halton region, and there were hundreds of us in the room, I remember one gentleman standing up. He made the comment: "I've lived in Oakville for 45 years. I bought my house at the corner of whatever and whatever, and it was a big property." The tax assessor came along, looked at his property and reassessed it, and his taxes would go up $8,000. From $7,000 they would increase $8,000 more. The point was, the tax assessor looked at his property and said, "Well, down the street that same-sized property was sold and redeveloped for a condominium development, town houses, and this is what they pay, so therefore this property is the same."

The individual happened to be a doctor, albeit he had been retired for 15 years. If you go back 15 years, incomes and so on and so forth were different, but because he had the foresight back in the early 1930s and 1940s to buy a property, it comes down to the point now where somebody arbitrarily is making a decision that this is what it's worth now.

We could go on for days about UVA, MVA and AVA and never come to a conclusion. The question is, we have to do something, but I caution, we have to be fair.

The Chair: Thank you very much, Mr Malcolmson. We appreciate the Brampton Board of Trade coming in and making a presentation to us today.

DEER PARK RATEPAYERS' GROUP
SUMMERHILL RESIDENTS' ASSOCIATION

The Chair: We now have the Deer Park Ratepayers' Group, Ms Packer. I understand you'll be sharing some time with the Summerhill Residents' Association, Mr Bossons. Welcome to the committee. Would it be fair to say that the Deer Park Ratepayers' Group will go first?

Ms Katherine Packer: Thank you for permitting us to share our time with John Bossons. We have planned on making a joint presentation, so I will begin.

Professor Bossons and I have another similarity besides both being in ratepayers' groups: We both have members of provincial Parliament who made promises in their election campaigns that never, if they were in a government of which they formed a part, would they introduce market value assessment.

I'm assuming that other presenters have made the case that market value assessment is what current value assessment is — in other words, things that are equal to the same things are equal to each other — and so I'm not going to take time to expand on that. But if Bill 109 is passed without any changes, without any amendments, it is only going to reinforce the feeling among our electors that politicians are not to be trusted, because this bill does implement precisely what we feared when we feared MVA.

1630

I am going to take a moment to remind people present of the disadvantages of MVA. First of all, it is very costly to implement and to maintain. It's volatile and it's the volatility that most people fear. It's the only tax where an investor is unable to predict in advance what his taxes will be. And it is unfair. In point of fact, it is grossly regressive because poor people have a much larger proportion of their net wealth in their properties than wealthy people. For people who are very rich, only a small portion of their wealth would be in their property. For people who are on moderate income, it represents a large amount.

Some of our neighbours moved into our areas a long time ago. They moved in at a time when they could afford their homes and they expected to be able to afford the taxes for as long as they wanted to live there. The increase in taxation will be a violation for them of their trust in the situation. Some of our neighbours bought their homes more recently, and they paid prices which reflect current tax rates. Telling them that they must face a capital loss on their investment because their taxes will be increased is patently unfair.

The government has committed itself to introduce MVA. If it cannot be persuaded to change this decision, we believe the government has a moral obligation to mitigate the unfairness of the consequent tax change. Market value assessment should be implemented in a way that will minimize its volatility and its unfairness. This means the implementation issues and transition issues become absolutely critical to the process.

The government should also put a high priority on minimizing the subsequent volatility of taxes based on market value once the 1998 reassessment has been implemented. We will deal with these issues in turn, first dealing with the implementation. I now pass this chair and microphone over to John.

Mr John Bossons: We've got a lot of suggestions to make, dealing first of all with implementation in 1998 and secondly with the volatility problem to which Katherine spoke. Let me deal with those in turn.

We start off looking at what's going to happen in 1998 from two perspectives, first recognizing that, especially where properties haven't been reassessed for a long time such as in Toronto, there will be huge shifts in taxes, huge changes. The example that was quoted a few minutes ago about the property in Oakville was a good example, taxes going up from $8,000 to $15,000. This kind of change is inevitable when reassessments haven't been done for a long time and when you bring in a new tax regime.

Second, it's not only going to be that the tax changes will be large, it's also going to be that many of them will be wrong. I say this meaning no disrespect to the hard-pressed staff of the assessment division who are trying to implement this. The reassessment that's going to take place, four million properties in Ontario, is the largest single reassessment that's ever been done at one time in North America. It's a very, very large job to do and it's almost impossible for that to be done well within the time and budget that's available.

That means I think that the government has to plan on there being a lot of errors and, as a result, there being obviously a lot of unhappiness, and especially a lot of unhappiness if transition provisions do not try to mitigate the effect of that.

We make several suggestions. In section 5 on page 3, we suggest a less ambitious goal for the 1998 reassessment. Here what we want to say is, the job is major. What a business would do confronting a job of such magnitude is to try to phase it, put it in phases so that the phases are each manageable. We suggest that a manageable phase for 1998, especially with respect to small businesses and the residential farm class, is to focus on coming up with realistic average values per square foot of houses, small businesses, farms in an area, and then apply those average values per square foot to the gross floor area of the properties.

In other words, not try to make assessment exact on a property-by-property basis, which requires, to do it well, inspections, careful analysis, much more analysis than the assessment division is likely to be able to do in the time that's available. We suggest simplifying it, a simplified scheme for 1998. We suggest that actually would have merit going beyond 1998, but even if the aim is to go to full "attempted perfect" market value assessment in subsequent years, we think that as a first phase it makes sense to think in terms of a simpler system. So that's point number one.

Point number two in section 6: We emphasize the need for a gradual decision. Here the key I would like to stress is the fact that this is something that we think has to be a provincial responsibility. It makes no sense, in our

view, to regard the appropriate transition provision as something that should be decided by a local council. You'll see that in many respects we actually share a number of the same concerns about leaving too much up to local councils that the Brampton Board of Trade expressed to you just a few minutes ago.

We believe that key issues of assessment policy and of the implementation of transitions, including the definition of special classes etc, all of those things should really be a matter of provincial policy and decided by the province. They should not be left as a matter of local option.

We suggest a particular form of an eight-year transition which would be in our view simple to implement by simply each year adjusting taxable assessment so that the difference between current value as currently appraised and taxable assessment — that one sixth of that be added to the taxable assessment in each year, and we just keep on doing that.

Where there is an assessment appeal, recognizing that there will be many errors and that I think at least in the first year one has to give the benefit of the doubt to the appellant until the appeal is dealt with, we propose that tax increases not be payable until and unless an appeal is denied. In other words, the cash-flow problem of financing a tax increase should not be borne by the taxpayer if, on appeal, that tax increase is subsequently reversed.

We suggest proposals for additional relief for seniors and the disabled. Again, the basic point we want to make is that whatever they are, they should not be a matter of local option, they should be uniform across the province. Indeed in this respect we commend to you the BC scheme, which essentially has the BC government acting as a banker, providing loans at a rate of interest that's based on the long-term government borrowing rate, regardless of income or anything else, to seniors and the disabled; no means test, simply an automatic ability to get a loan from the provincial government that's a lien on the property and that is repaid when the property is sold.

We suggest again that should be a provincial plan, not something that varies from municipality to municipality. There's no reason why, in equity, somebody living in Halton should face any different access to relief provisions than somebody living in Toronto or somebody living in Orillia.

1640

Turning to non-residential assessment, I want to make the point that we believe very strongly in the need for a special class for small neighbourhood businesses. It's not so much small here, it's the neighbourhood businesses. This is something which we believe can be defined. Indeed, some of us had discussions with staff of municipal affairs and treasury a couple of months ago about this at the time this was being considered by the Crombie task force. It's implementable and it should be implemented by the province based on definitions that can be implemented using data already available to the assessment division. We think it's essential that this be done in order to try to minimize any negative economic consequences upon local merchants of reassessment.

We also believe that assessment, especially non-residential assessment, should be based on value and current use. The proposed law, Bill 106, provides that this can be done on a basis of local option. We believe again that's something that should be a matter of provincial policy. In other words, there is no reason to have inconsistent appraisal techniques for the commercial properties across the province. Like the Crombie task force, we recommend value and current use because we believe that to be the best way of getting consistent assessment across the commercial class.

Right now, large commercial office buildings, commercial malls etc, are assessed on the basis of a capitalization of rents; that is to say that in fact they are valued on the basis of their current use because they're already viewed as being developed to their highest and best use. Small businesses are assessed on a transaction basis and we've seen too many examples, the 1988 and 1984 assessment studies in Metro Toronto being good examples, where there's huge volatility, shifts between one component of commercial properties and another precisely because they are being assessed on a different basis.

We believe that a requirement for assessing all properties on the basis of value and current use gives you consistency and reduces that kind of arbitrary, unpredictable shift. We believe it also makes sense on the grounds that the purpose of the tax really is, especially to the extent it's paying for municipal services, to pay for municipal services that are used by the current use. So it makes good sense from a philosophical basis to assess on the basis of value and current use.

With respect to the business occupancy tax, we support its elimination but recommend that the manner in which it's financed again be at least in large part mandated by the province. You can see there's a very consistent thread here. We think that all of this stuff is your responsibility, not the responsibility of local councils.

We propose that business realty taxes initially be raised sufficiently to cover the cost of getting rid of the low rate of business occupancy tax, with the cost of the remainder being spread over all taxpayers in a municipality. We make a technical point here which I won't go into concerning the way in which this affects these contracts, which is in our brief.

Turning now to volatility, let me just make the point here, first: Volatility is a serious problem. You only have to look at what's been happening in Vancouver where in five out of the last six years it has been necessary to put caps on tax increases of different types, some years residential and some years commercial, in order to keep tax increases on a year-to-year basis down below 15% for individual properties. This is after a three-year averaging rule is applied.

Volatility is a serious problem, so if you don't anticipate it in advance, there's going to be huge political costs when this comes in. Three-year averaging isn't enough. We suggest that where averaging is the technique that's used, it should be the same kind of eight-year averaging that's proposed for the initial transition. We suggest to just adopt something that makes sense for dealing with the initial shifts and continue that.

Secondly, we also suggest that this is a place where value in current use is particularly important. Changes in assessment should be limited to changes that arise from changes in value in current use. We recognize that's

difficult to implement correctly for residential properties, for a whole variety of reasons. There is just not the rental rate around to make that feasible.

We suggest that in the residential and farm class, a special provision be used to deal with volatility. In that class, we propose a California-style scheme where you base assessment on either previous taxable assessment, or in the case where you've had a reassessment, like in 1998 or in subsequent years, base it on acquisition cost. What that means is that you would —

The Chair: Could I ask you to summarize in about a minute, please.

Mr Bossons: Yes. What that means is that you would use a California-style limit on the extent to which you get unanticipated increases. We think the merit of the California proposal is that when people buy a house or farm, they buy it knowing what the taxes will be because they will be based on the market value that's established by their purchase.

Our general conclusion: You've got serious problems, ladies and gentlemen, and we urge that you give consideration to the kinds of suggestions we're making.

The Chair: Thank you very much. We appreciate the Deer Park Ratepayers' Group and the Summerhill Residents' Association for your presentations to us today.

PAM McCONNELL
DENISE REDWOOD
PAUL BARBER

The Chair: We now welcome Councillor Pam McConnell from the city of Toronto, Ward 7. I understand that you will also be sharing your time with the Old Cabbagetown Business Improvement Association, Ms Redwood and Mr Barber.

Ms Pam McConnell: Yes.

Mr Pouliot: Mr Chairman, do you believe Madame Packer or Al Leach? I believe Madame Packer.

The Chair: Welcome to the committee. You can appreciate you are the last presentation of the day so it's the —

Ms Pam McConnell: Oh, maybe I should make you stretch first, then.

The Chair: We've reached that time of the day when Mr Pouliot's sense of humour is running wild with us. We're all looking forward, of course, to going back into the House.

Ms McConnell: Thank you very much. After such a technical presentation, I hope you'll enjoy our presentation, which comes very much from the community that we serve.

Chair and members of the committee, I'd like to introduce my two constituents who will be sharing this time with me. I am from Ward 7, city of Toronto, a downtown neighbourhood that includes a diverse community such as St James Town, Cabbagetown and Regent Park. Denise Redwood, who is on my right, is a business owner and a member of the Old Cabbagetown Business Improvement Association, as well as, of course, a community resident. Paul Barber, on my left, is also a local resident and in addition is a real estate agent. I thought you might like to hear about our community from both of those different views, as well as my own view as their representative.

"Slow down and get it right," is a refrain that you have heard before, I think, and will hear again. It applies equally to this Bill 106, as well as to the megacity legislation and other bills before the Legislature affecting school boards, municipal downloading and so on.

It is hard to conceive of the cumulative effects in my community if all of these bills are implemented, but it is clear that almost no one knows what these effects will be. I am particularly concerned about maintaining the health of our urban neighbourhoods, and especially inner-city neighbourhoods with mixed incomes like Ward 7 in the city of Toronto. The uncertainties and the multiple changes occurring simultaneously for our small business operators, especially the street-related retail stores and restaurants, create a terrible climate for business. I thought the Mike Harris government was supposed to be about supporting those kinds of business communities.

1650

In my presentation I will comment on the issue of fairness; on the issue of reassessment time constraints; on the need for amendments incorporating the value in current use, as you heard before in the previous presentation; and the impact on our small business community.

First of all, on fairness: Much has been said by the government representatives and the Toronto media about how unfair the current assessment system is because it has not been updated consistently in Metro. I don't know anyone who thinks the current system is fair or is up to date, but updating everybody's assessment at exactly the same time has nothing whatsoever to do with the question of fairness. If the assessment was based on the ancient practice of the number of glass windows in your house, or as in Charleston the number of doors going out to the sidewalk, we would probably think of that as very unfair, but at least it would be consistent and updated if done at the same time this year.

The primary reason previous governments did not act in Toronto, in my view, or indeed to revise the entire system province-wide, had to do with trying to work out a system that was more fair than the current market value system. The previous government's Fair Tax Commission attempted a serious analysis of the unfairness of the market value-based system. They demonstrated that the effects of market value assessment are distributed randomly, not fairly, across property taxpayers. As you heard from the city of Toronto's Assessment Reform Working Group yesterday, this proposed current value assessment is just market value assessment with a new name, in our view.

In other words, Bill 106 does not seek to deal with the challenging questions of fairness, but rather substitutes simultaneous updating using the current methodology and hopes the resulting confusion will deflect any calls for serious overhauls. The destabilizing impact of this update, however, will be serious for many of our neighbourhoods in our large cities, and it should never be underestimated.

Real estate in large cities is volatile over time and in different areas and in different classes of property on a scale that is never experienced by slower changing towns or smaller cities. This is why there was such a groundswell of opposition in Metro and in this particular city to the last attempt on MVA. I'm sure you all recall, and will hear during these hearings, what happened at that time.

This is why both the Golden commission and the Crombie Who Does What panel recommended changes to the assessment methodology that tried to mitigate some of that unfairness. For example, the Golden commission tried to separate location and land values from house pricing for buildings of the same size and features. I may not have agreed with it all, but at least it was an attempt that will not be made with the current slapdash, do it in a hurry with temporary staff approach taken by our provincial government currently.

Crombie placed great emphasis on ensuring the assessment was to be based on the value of the property in its current use. This has not been provided for in Bill 106, and as we speak to assessors anyway, they are still out doing the same old thing.

Inner-city areas like mine suffer from a phenomenon of being close to higher-valued land, yet trying to maintain their mixed-income character. Apart from social housing and high-rise private sector rental housing, ward 7, as you probably know, has many houses owned by the same low- or moderate-income households who have lived there for decades right next door to houses that have recently been renovated and upgraded by middle- and upper-income households. Although all of these houses are on modest-sized lots, compared to, say, Rosedale or the suburbs in Metro, and use land and city services in a less costly, and efficient, manner, they will be highly taxed because of their proximity to our very downtown. The modest income homeowner in Cabbagetown can expect to be taxed today as though they have already realized the higher resale value that may not occur for many decades.

The reassessment time constraints: I was shocked to read the submission made to your committee on Monday by two assessors who have worked for years in the Ontario government's assessment division. They said there is not enough time or trained people to do the reassessments province-wide. They cited the use of temporary and untrained personnel to do the reassessments. I am also aware of the length of time British Columbia took to get it right.

The unrealistic timetable set by the provincial government is causing this problem. I fear that in my community, too little time and too little experience by assessors may result in many inappropriate assessments.

Will the small houses that have not been renovated and are closer to the corner where the drug dealers ply their trade be assessed at the same level as the renovated house with the addition in the centre of the block? Will the small retail shop in the unrenovated building on Parliament Street just a few yards away from the preferred pedestrian route be assessed at the same rate as the recently upgraded building, for example, with the trendy restaurant a little closer to the intersection and the foot traffic? I would submit that both of these errors are more than likely, given the haste of this reassessment.

Since the legislation has not been approved, how can the assessors be doing their job, and what guidelines and regulations are they following? Please, slow down and do it right.

Assessment value in the current use is my third point. We remember all too clearly in the last battle against MVA the examples of little bakeries and little convenience stores being hit for huge tax increases because somebody else a block away or so sold a building and someone had redeveloped and intensified the use of that lot. The little bakery was assessed as if it were about to sell off to a developer and cease to be a bakery.

It is common in our city for zoning policies to encourage intensification, while at the same time the city retains site plan control to ensure appropriate intensification. This does not mean that every little store on every block should expect to be redeveloped, nor should this zoning policy be interpreted to mean the city doesn't want second-hand bookstores and small bakeries and shoe repair shops to exist cheek by jowl with trendy restaurants and upscale clothing stores. Diversity of retail as well as mixed-income housing is something we cherish in Ward 7. Tax policies should not force out our little guy.

No market-based assessment system should proceed that does not have written into the legislation the guarantee that properties will be reassessed based on their current use. Time enough if a property is ever redeveloped to charge the higher property taxes then. Anything less would seriously destabilize the healthy urban downtowns and liveable residential neighbourhoods Toronto is famous for worldwide. Slow down and let's get it right.

Fourth, small business: My co-presenters will add their examples to my thoughts. In addition to the comments I have made about small retail businesses, let me point out that most of my ward's neighbourhoods, and indeed like many in the city of Toronto, have a Main Street of retail. Perhaps the contribution this has made to the vibrant neighbourhoods of large cities like Toronto has really been unappreciated.

Assessed value based on current use is probably the single most important guarantee that many small retail streets require. In the context of the hastily reassessed system that Bill 106 mandates, the abrupt removal of the business occupancy tax will add further uncertainties and wild tax shifts to an already unpredictable property tax.

Most small businesses, including retail, are assessed a business occupancy tax at a much lower rate than our big financial institutions and banks, and if the municipality redistributes the business occupancy tax across the whole commercial and industrial base, almost certainly small retail will see a very big tax increase.

Putting the flexibility of a separate and a lower-assessed category of small retail into the power of municipalities only begs the question of timing. What time will there be for the city to understand the implications of all the other tax changes so that it can properly plan for phase-in periods and the replacement of the business occupancy tax and so on? Will it have time to consult? What city are we talking about, anyway? The entire municipal governance infrastructure in Metro is up in the air at this very time.

If this government cared about predictable expenses for small businesses, it would not try to change everything all at once before anyone has even had a single impact study. I would ask you once again, please slow down and get it right.

Denise, did you want to add something?

Ms Denise Redwood: My name is Denise Redwood. I have a very small business. It's actually a used book

store. I still believe that people read and read for pleasure and that we can survive without being on the Internet.

I was downsized 10 or 11 years ago, one of the first in the group out of the television industry. I had two choices: become a politician, which didn't appeal; become a small-business owner, because at my age, I'm not going to be re-employed no matter what my skills, my brain, my anything.

I became a small-business owner. I was renting a property for four years. Dreadful landlord. I had saved at the time I was working, scrimped and saved as I was taught to do by my parents. I always say I was born into the wrong generation because that's what they taught me to do as a good citizen.

I paid off my mortgage at my home. Instead of a nice letter from the chairman of the board of the bank, which I thought I would get for being a good citizen and doing this, I got a bill for $150 for tax for the disbursement of my mortgage.

In the business, I thought the best thing to do would be to buy a property. This would be something controllable. One is supposed to plan in business. I bought a property in 1989. I did not pay the mad rates that were going then in the hot spots. The business is in Cabbagetown on Parliament Street.

I have somehow managed to survive six years of depression. Some people call it a recession; I call it a depression. I live on probably what you would spend on lunches. I live for a year on what you may spend on lunches if you're frugal. I pay my taxes on my home. I've never been behind. I have only one bill in the world, and that is the mortgage on my property, which was with a trust company which went under. I was disowned by the big banks who are now saying, "We are being very kind to small businesses." I don't believe it.

I expect from my government that in working, and I'm getting very nervous now, in working hard all my life and in not complaining and in not dipping into the public pot, that I will be able to retain a home over my head, that I will be able to keep my business going. Small as it is, it adds to the flavour of my neighbourhood, and neighbourhoods are what Toronto is all about. I will be able to keep my building and pay all the expenses on it.

If this bill goes through — and I fought very hard against MVA and I went down to Metro Hall and made a presentation there — I will lose my building. My business is so marginal, which you can say shouldn't be, but show me one business in the small retail industry that is not marginal at the moment after six years of a depression, my business will close, my building will be gone, I will not be able to pay the taxes on my house. I probably won't get a buyer for my building, because commercial in Toronto, particularly in downtown Toronto, small commercial buildings, took the brunt of the real estate crash that occurred. We haven't come out of it. Houses are starting to; we haven't.

I also will probably not be able to sell my house, because people will not buy a house when they do not know and cannot plan ahead for their expenses, of which taxes are a major expense.

If you put this bill through, I've had it, and I want you to remember my face when you go to vote on this bill, every one of you. I'm not pleading. I'm not crying. I'm saying I'm trying to work, I'm trying to retain my dignity, and I do not think this government was elected to throw me in the street. That's all I have to say.

Ms McConnell: Could Paul make a couple of comments? He's a seller of property.

The Chair: Could you keep your comments to about a minute? Thank you very much.

Mr Paul Barber: I guess I've come to two words; balance and equilibrium. On Main Street, which is Parliament Street and our cross-sections, over time the stores evolved and there was balance and there was equilibrium. Times changed, the equilibrium changed, and then we had people coming in and you would hear people on the streets say, "How many pizza stores can you have? How many dollar stores can you have?"

That's the front of Cabbagetown. Behind it is a wonderful, vibrant residential area. The residents are the ones who walk to the street, who know the shopkeepers, who have dialogues, who ask how their children are doing and the grandchildren and so on. The residents are concerned not just that their taxes on their homes are going to be raised significantly, but they're concerned about what is going to happen to our shopping street, our friends.

As Denise has said, the margin is slim. A lot of people who lose their jobs think first and foremost: "Well, I'll be self-employed. I'll start my own business." We see a lot of that on Parliament Street, energetic people coming, spending their last penny for stock, and the community supports them and goes behind them. I'm fearful for those people because their margin is so minimal that any slight change — we're not just talking about a tax change here, we're talking about other impact factors too, but it doesn't take much to put them out, and that person is a family and they are our friends and our neighbours.

It's really important that you consider how you affect small business. It's really crucial. Small business is the backbone and the focus of residential areas. We happen to live in a very vibrant residential area.

I just make one other comment. You were talking about assessment, and my concern is that assessment is done fairly, and when I say fairly I mean onsite assessment, not the drive-by situation. I say that just from my own business experience with mortgage lenders.

As we became very active in 1987 through 1989, the lenders slipped on how they approved properties, and then when the market fell, the lenders had all these homes overpriced, huge mortgages, couldn't clear them out. The point is that if the mortgage lenders had not just the drive-by, but a walk-in, really did see what the lender was putting his money down against, we wouldn't have had quite as disastrous a situation. My concern is that the assessment done for taxation purposes be also onsite, so that we don't have neighbours complaining to each other, asking, the intrigue that does go up and down community streets.

The Chair: Thank you very much for taking the time to make your presentation to the committee.

Ms McConnell: I appreciate the extra time.

The Chair: We have come to the conclusion of our agenda today and this committee stands adjourned until 10:00 tomorrow morning. I would ask the committee to be prompt again yet tomorrow.

The committee adjourned at 1709.

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CONTENTS

Wednesday 9 April 1997

AUDI ALTERAM PARTEM

ISSN 1180-4386

Legislative Assembly of Ontario

First Session, 36th Parliament

Assemblée législative de l'Ontario

Première session, 36e législature

Official Report of Debates (Hansard)

Thursday 10 April 1997

Journal des débats (Hansard)

Jeudi 10 avril 1997

Standing committee on finance and economic affairs

Comité permanent des finances et des affaires économiques

Fair Municipal Finance Act, 1997

Loi de 1997 sur le financement équitable des municipalités

Chair: Ted Chudleigh
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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 10 April 1997

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Jeudi 10 avril 1997

The committee met at 1001 in room 151.

FAIR MUNICIPAL FINANCE ACT, 1997
LOI DE 1997 SUR LE FINANCEMENT ÉQUITABLE DES MUNICIPALITÉS

Consideration of Bill 106, An Act respecting the financing of local government / Projet de loi 106, Loi concernant le financement des administrations locales.

TORONTO REAL ESTATE BOARD

The Chair (Mr Ted Chudleigh): Welcome back. I thank the committee for being prompt in these difficult days.

We welcome now the Toronto Real Estate Board, Mr Khan, Mr Vail and Mr Palmer. Welcome to the standing committee on finance and economic affairs. We look forward to your presentation. We have 20 minutes together; we'll fill any remaining time with questions.

Mr John Vail: Thank you, Mr Chairman, members of the committee. Ladies and gentlemen, my name is John Vail, and I'm a director of the Toronto Real Estate Board. I'm sure you know the two gentlemen on either side of me, Fareed Khan and Van Palmer, respectively the board's policy adviser and policy analyst for government and legislative affairs.

I would like to start out by noting that reform of municipal finance is long overdue; it is broken and needs to be replaced. The Ontario government started the reform process in the 1970s when it took over responsibility for property assessment. Not since that time has any provincial government had the political will to complete the process by implementing a uniform system of assessment across Ontario.

In light of the province's decision to reform Ontario's convoluted system of municipal finance through Bill 106, the Toronto Real Estate Board would like to commend the government for having the political will and courage to undertake this initiative. We believe that a uniform system of tax assessment is crucial to the success of any property tax reform effort. We feel that Bill 106 will accomplish this by implementing a consistent, uniform and modernized system of municipal assessment across the province. In addition, the bill addresses the important issue of keeping the system up to date by undertaking annual reassessments. This will avoid the problem of huge variations in assessed property values that occur under the current system where reassessment takes place every few years, if at all.

In general, TREB is pleased with the principles outlined in Bill 106, since they attempt to address the following problems:

(1) Currently, we have a fragmented property tax base where inconsistent and outdated approaches to property tax assessment among adjoining municipalities have caused cost-sharing inequities and created competitive disadvantages among municipalities trying to attract and retain businesses.

(2) The high level of business property taxes, especially in Ontario's economic heartland, Metro Toronto, which has resulted in businesses carrying a disproportionately large share of the local tax burden.

(3) Property assessments which have resulted in values that are based on the highest potential future use of the property as opposed to the current use.

(4) The concern of seniors and those on fixed incomes facing potential property tax increases under the new system.

Other aspects of Bill 106 address several issues which were raised by the Toronto Real Estate Board in its submission on property tax reform to the Golden task force and the Who Does What panel. These include the issues of education, property taxes, the use of variable mill rates and the use of rental values to calculate property taxes. Given the limited time, we'll refrain from commenting on these issues. If committee members would like a copy of those submissions, please notify us and we'll be pleased to provide them.

Notwithstanding our general support for Bill 106, the Toronto Real Estate Board does have specific concerns with respect to the phase-in provisions, possible implementation of higher taxes on the sale of a home and the definition of "current value," and we would urge you to consider some of our concerns.

First of all, on the phase-in: Under the provisions to implement actual value assessment, the municipalities would be given the option of phasing in the new taxes over a time period not to exceed eight years. We disagree with this provision, because it will likely result in a patchwork system of assessment, in our view. For example, cities or towns A, B and C are located within the same region, sharing common boundaries. City A may decide to phase in the tax over eight years, B would phase it in possibly over five years, and C decides to phase it in over three years. Obviously, you then have a situation where each city has a different assessment base, and it would in some ways re-create the situation that exists currently. In addition, many municipalities may be likely to use the provision to put off a phase-in of increases, or in fact decreases, until the last possible moment, thus negating the advantage which was intended by the phase-in concept.

With respect to the phase-in provisions, we recommend that the bill eliminate municipal discretion for phase-in

and set a standard phase-in time period of eight years for all municipalities, thus allowing for an evenhanded period for all residents and businesses.

Second, on the possible implementation of higher taxes upon the sale of a home: We're concerned that the bill could be interpreted to allow for higher tax levels to come into force when a home is sold even though the sale might take place before the end of the eight-year phase-in period. We are concerned that this provision will negatively impact those selling their homes within the eight-year period.

We recommend that any phase-in of tax increases on a home be maintained for the eight-year phase-in period, even though the home may be sold during that time. We believe this to be fair, and would maintain a level playing field for all homeowners, whether or not they sell their homes during the eight-year period.

On the definition of "current value," we are concerned about the definition and whether it captures the meaning of what was intended by the Who Does What panel. The objective of the current value concept was to eliminate the possibility of a speculative component entering into property assessments, particularly as it applies to business properties. However, in a discussion with individuals in the business community, we have discovered that there is a high level of concern that the proposed definition for current value may not be sufficient to grasp this intent.

Consequently, we recommend that a clearer definition of current value be included in Bill 106, such that it captures current use principles and applies them for all assessments for commercial-industrial properties.

That concludes my remarks, and I would be pleased to respond to any questions you might have.

The Chair: Thank you very much. That leaves us about four minutes per caucus for questions and comments. Mr Phillips, would you start us off?

Mr Gerry Phillips (Scarborough-Agincourt): Thank you. I appreciate the comments. As to your first two paragraphs, everybody says there's a need for reform, and most groups say they commend the government for the political will and courage. We're trying to make sure that it isn't recklessness we've got here, not courage. We are concerned, not because there is change, but that this bill has some fairly major problems with it. By the way, not one group to come before us hasn't indicated some significant concerns with the bill. The problem is that today is our last hearing in Toronto, we're on the road next week, we've got one day for amendments, and then it's gone.

I've got several questions. You indicate that you're pleased that this bill will address the high level of business property tax. Is it the real estate board's interpretation that it will move property taxes off business and on to residential? We don't see any municipalities that believe they can dramatically cut expenditures. Is that why you're pleased with the bill, that it does move taxes off business and on to residential?

1010

Mr Vail: No, I don't think that's quite the interpretation we had. Perhaps Fareed could comment on that.

Mr Fareed Khan: We all agree that the reform needs to take place. We don't believe, as it sits right now, that there will be a massive shift of property taxes from businesses to residential. In fact, I think for any municipality that contemplates that, it will be political suicide. However, what you will get is a more evenhanded or level playing field among all municipalities as opposed to the patchwork that exists right now.

In terms of business tax rates that municipalities levy, they are going to have to become more competitive vis-à-vis their neighbouring municipalities. For example, within Metro Toronto, which has generally higher tax rates within the GTA and which in many instances has caused a flight of businesses out of the core areas into outer municipalities or other parts of the province, those municipalities are going to have to rethink their levels of business taxes and possibly lower them to make sure the businesses are retained. With the provision that will be put in place in the bill, where you have the same assessment base and the same assessment principles across the board, they will be able to compete evenhandedly with, for example, the Mississaugas, the Vaughans and the Markhams.

Mr Phillips: That's helpful. So you see a reduction of taxes on business and therefore a shift on to residential.

Mr Khan: No.

Mr Phillips: There are really only two sources that I'm aware of.

Mr Khan: No, we don't see that there's going to be a shift on to residential. What I said was that municipalities would have to consider what their levels of business taxes are and try to make them competitive with each other. As I said, if a municipality decides to shift it on to residential, that's a political decision they'll have to take, but we don't see that happening because it would be a major political battle to undertake that. From our perspective, if we were aware of municipalities that were going to do that, we would be there fighting to make sure the residential taxpayer wouldn't suddenly be faced with a massive increase.

Mr Gilles Pouliot (Lake Nipigon): You and some other presenters have commended the government for facing the reality that things had to change. Sometimes in our sincerity, enthusiasm taking over, we go as far as to say courage, that it takes a lot of courage to endeavour a revolution in this context. I take your comments at par.

We've had several presenters, from different walks of life. At the municipal level, the presenters were of the opinion that the days of holding the line on municipal taxes or reducing them seem to have come to an end, partly because they don't know all the answers. When you don't know all the answers, you bag some, and I think it's a normal reaction: You put a little cash by, a little reserve. But those who have the information — because what is being done in Bill 106 does not work in isolation; it is one of the components of the government's program. We have to factor these in as well.

You mentioned that it would be political suicide; that the municipal leaders would not have to call Dr Kevorkian, they would have sufficient ammunition to do themselves in. In any event, if push comes to shove, you would be there to referee, to help them, and those good deeds are well taken.

If you don't see the industrial and commercial sector benefiting from the removal of the business occupancy tax — to me, I suppose, a tax is a tax is a tax. It has to come from someplace. This is not even revenue-neutral. We can play the shell game, but the bottom line has to come out the same: You need to receive the money.

We have indications that the money will be passed along, as much as possible by a sideshow, to those who are benefiting. If you benefit one day, the next day it's back up. If you don't have that facility by legislation, then you have to find the money someplace. The government is not going to give you a cheque. It doesn't operate that way. There's no money there. They've got to get $2 billion somewhere.

You state that many municipalities, because of other municipalities' competition, are likely on the one hand to go quickly, but you suspect that some will delay as much as possible. They will have the monetary conscience of their means. They will do what is necessary to make ends meet today, to give them the daily bread. The philosophy will not apply here. They might not have a choice to wait two, three or four years. They'll go and grab as much as they can because they need it. What is your response?

Mr Van Palmer: I would imagine that what you get into is the phase-in of a tax in terms of whether or not some might decide to phase that in more quickly than others. Our concern is more in terms of consistency. If you look at, say, the GTA, which really is a region state, what you're trying to avoid is to have certain cities going and phasing in very quickly over two or three years and then have others taking eight years to do that. Then you have some inconsistencies and some variations in terms of property taxes. I think that's what we were getting to as opposed to —

Mr Pouliot: But the three examples you've given are high assessment —

The Chair: Thank you, Mr Pouliot. I'm afraid we've expended your time.

Ms Isabel Bassett (St Andrew-St Patrick): Nice to see you again, gentlemen. Thanks for your positive comments and for your suggestions, I might add. They're worth looking at seriously.

I want to follow up on my colleague Mr Pouliot's remark. When you talk about the phase-in or the eight years, we sincerely believe that any differences between municipalities will be short-term and in eventually, say, five to eight years down the road, all municipalities will have phased in the system, so it won't be a patchwork quilt.

Why don't you subscribe to the belief we have that municipal politicians, who are in touch with their constituents, will not want to make it difficult for, say, the disabled or elderly people to maintain the home they have lived in for a long time? It is our wish that they'll be able to do so. What gives you the impression that municipal politicians, who usually react to what their people want, the citizens want —

Mr Vail: The problem with the total municipal discretion on the phase-in is that you could have completely different mathematics in different municipalities. One community could decide to phase it in over four years, maybe 10% one year and then a third, a third, a third in the next three. Another municipality could say, the way it is written, "We'll phase it in in the seventh or eighth year." It's not clear how the phase-in will be implemented. It leads to uncertainty for the homeowner and the business community. They cannot plan the levels of taxation that they will be faced with in the years to come because they don't know what the phase-in strategies will be.

Ms Bassett: I understand now. I thought it was the municipalities you were concerned about, allowing them the discretion to do it on their own rather than the province mandating the phase-in, mandating that this has to happen in X period of time.

Mr Khan: We were concerned about, as John mentioned, the consistencies. As long as you have the same principles being applied to each municipality so that, as John mentioned, the math is not different in one municipality to the next, then at least there is some way to plan. Also, for a business which has to operate over a large geographic area — for example, in the GTA over many different municipalities — they may have to take into account, as the bill currently stands, the mathematics in the different municipality differently, and that obviously is a business expense for them. One of the reasons we called for property tax reform in the past was to simplify things for business and their business operations, to lower their business costs.

Ms Bassett: Okay, thank you. That clarifies it.

The Chair: Thank you very much. We appreciate the Toronto Real Estate Board taking the time to make a presentation.

1020

SOUTH EGLINTON RATEPAYERS AND RESIDENTS ASSOCIATION

The Chair: We now welcome the South Eglinton Ratepayers and Residents Association, Mr Pidduck.

Mr Harold Pidduck: It's obvious that the real estate board hopes to get some business from me when you guys tax me out of my house.

Thank you, Chair and members of the committee, for this opportunity to speak. I am appreciative of the extra burden these hearings place upon you in the current circumstances. I will try to restrict my remarks to the bill under consideration since the other issues are being heard in other forums, but let it be understood that the South Eglinton Ratepayers and Residents Association regards Bill 106 to be at the heart of the matter.

On June 2, 1995, the Honourable Al Leach, in an election brochure distributed in his constituency of St George-St David, made the commitment that, "My party and I will never support the imposition of MVA in Metropolitan Toronto." Bill 106 imposes market value assessment, MVA, not only in Metropolitan Toronto, but in the rest of Ontario as well. All of the negative impacts of MVA which prompted the minister to make the commitment cited above, impacts such as destabilization of urban neighbourhoods, business districts and cultural facilities, can be anticipated now with this bill.

Bill 106 removes the term "market value" wherever it appears in the Assessment Act and replaces it with "current value." However, it is apparent from Bill 106

and the existing act that these terms are defined interchangeably. The significance of the term "current" is that under the existing Assessment Act updating of assessed values is a local option whereas Bill 106 makes updating of values mandatory province-wide.

According to the Assessment Reform Working Group, March 19, 1997:

"It is difficult to see how the government could impose MVA more effectively than by enacting Bill 106. The bill eliminates the existing local option on keeping values current. It mandates future MVA updates Ontario-wide. It thus violates the minister's clear and precise electoral commitment. If the planned reassessment is to have legitimacy for taxpayers, the government requires a new mandate before implementing it."

On the matter of property assessment, Premier Michael Harris could well reflect on the remarks he made in the Legislative Assembly on November 5, 1992, to the NDP government of the day when he asked:

"Why haven't you, instead of treating market value assessment in isolation, looked at it, as other issues should be looked at, in conjunction with the whole combining of impacts that are coming down the pike? Why haven't you understood that the heart, the core, of our capital city, of this province, of this country, is being threatened? It is being threatened every day. Why haven't you done an impact study on these changes in conjunction with the other changes that are happening?"

In short, Premier Harris, you do not have a mandate to impose MVA. If you now think it is the route to go, call for the election writs and run for re-election on a platform promising MVA, but we think the Ontario electorate would reject such a platform. Currently, with local-option MVA, municipalities with 70% of the population have opted not to keep values up to date.

Municipal Affairs Minister Leach wants to reform Ontario's property tax system using actual value assessment, AVA, or to use the latest appellation in vogue, current value assessment, and 1996 property values. He wants it in time for the 1998 municipal tax bill. It is the biggest reassessment project ever in North America, costing an estimated $61 million, for openers. This is at a time when there is immense pressure to cut our health care, social services and environmental laws. Province-wide reassessment involves the valuation of over 3.8 million properties, all within a time line of 18 months. Why has the government, which was elected on the basis of a commonsense fiscal platform, chosen to go with the highest-cost, most labour-intensive solution? It is clear that the assessment bureaucracy has one objective: to secure its own continuous employment.

For homeowners in north Toronto, the potential impact of the proposed AVA/MVA could raise property taxes by 75% or more. Any shifts of tax burden from other classes of property, ie, industrial or commercial, may affect residential taxes to an even greater degree. A conservative estimate is that the average SERRA taxpayer may have to pay an additional $100 per month added to his or her tax bill. Imagine the impact upon a retiree on a fixed income whose major wealth accumulation is represented in 1930s, 1940s and 1950s dollars. Seniors will not have the option of being a snowbird; they will be forced to join the greybeard colony huddled in Atikokan.

It is a moot point as to how far the $200 million recommended by the Golden report to ease the impact of tax reform on seniors would go. Furthermore, that protection would not last longer than eight years and the tax deferral would be subject to market interest rates, in effect imposing a reverse mortgage on their equity in their homes, clearly something that many seniors would regard with suspicion. British council tax, for example, affords seniors living alone a 25% discount on their taxes until their home is sold.

Another group severely affected by higher property taxes would be the young, first-home buyer burdened with heavy mortgages. Higher taxes would also discourage the multiplier effects of new home construction on the building industry, appliance and home furnishing manufacturers.

SERRA's preferred path to tax reform is through non-partisan consensus, which should not be hard to establish since the Liberals, NDP and Tories have all shown an interest in property tax reform.

Experts on the British Columbia actual value property tax system, which seems to have captured the fancy of Minister Leach, have some advice for the Ontario government poised to introduce it here.

"Go slow and do it right or maybe don't do it at all," says Stanley Hamilton, an economics professor at UBC, who attended a property tax reform conference in Toronto last November. "Why don't you set the year 2000 as the target to make property tax reform operational and work seriously towards that?" He adds, "The assessment of Ontario's four million properties has got to be a three-year job."

Edward Desroches, a member of the Vancouver Citizens Advisory Committee on Property Taxation, said that the actual value assessment system had a growing number of critics because it doesn't address the problem of very volatile values which can go up and down.

Andre Carrell, city administrator for Rossland, BC, said the biggest problem with actual value assessment is that it lets politicians off the hook.

SERRA affirms that reform is needed in our property tax system. The current system is not fair to homeowners, tenants, landlords and commercial property owners. Property taxes should be based on services used. The alternatives to MVA are now increasingly well understood and have been proven in other countries. These other countries originally had volatile MVA-based assessment systems but have developed innovative alternatives. In doing so, they did not sacrifice equity but, rather, reinvented it, with general acceptance by taxpayers.

1030

The jurisdictions which have been most successful in this regard are the UK, with council tax; Israel, with unit assessment; and California, with acquisition price assessment. In all three, taxpayers are protected from upward reassessment as long as they own their property, thus avoiding the single most disliked feature of MVA.

Anne Golden downplayed unit assessment for lacking progressivity. But progressiveness has not been a consideration of the Ontario government in its plans to bring in a 30% tax cut, a system which will clearly benefit

most high-income earners. The proven alternative systems are lower in cost than MVA. The Ontario government has decided to implement MVA, but its commitment of resources would accord better with lower-cost alternatives.

It may well be that assessment reform is most readily achieved via local option. The local option of the past has been limited to whether the MVA is kept up to date. The local option of the future could offer a choice of proven assessment models from which municipalities would choose.

The choice of an assessment base should not affect a municipality's share of regional costs, and various means are available to ensure that this would be the case. Cost-sharing could be based on formulae other than assessment; for example, average income levels or user pay. Whether assessment shares are used, the long-standing equalized assessment system is available to achieve comparability.

What is needed most of all is a more in-depth understanding of assessment alternatives and a clear electoral mandate which would flow from that understanding. These objectives are within reach if Bill 106 is withdrawn.

What SERRA wants for the greater Toronto area are a fair tax system for all properties, accountable politicians, and a smaller, simpler government.

Historically: In 1991 the people of Toronto voted overwhelmingly to dump the noxious tax grab called market value assessment. In 1992 an attempt was made to move the tax mess on to the backs of Toronto taxpayers, but the government of the day stopped that. In 1993 another attempt to impose MVA was stopped in its tax-grabbing tracks. In 1994, 73,150 voters in Toronto decided to go it alone in the fight against MVA.

Now, on March 3, 1997, nearly 400,000 Metro voters said no to the mega-mess of which Bill 106 is a vital component. Respect that vote. The very least you can do is put Bill 106 on the back burner until the other issues are resolved.

At some point in time during the next couple of years, long after the whips are off, each of you will have to face your own constituents and justify your actions. As men and women of integrity, it will not be a satisfactory answer to say to the electorate that you heard their wishes but that yours was not the ascendant voice in caucus.

Thank you for listening to me.

The Chair: Thank you very much. We have about a minute and a half per caucus. Could you start us off, Mr Pouliot, please?

Mr Pouliot: Thank you for your presentation, Mr Pidduck, and thank you for mentioning Atikokan and the huddling practice that goes on there when it's minus 40. But I will have you know that we're not immune to enjoying the same parts of Florida that Torontonians and others have gotten accustomed to.

Mr Pidduck: I understand there are good bargains on houses to be had up there now that the iron business —

Mr Pouliot: Sir, you can't see the houses for the 4 by 4s and the snow machines.

You have been subjected to a litany of acronyms. They went from MVA to CVA and now, for convenience, I imagine, and I need your help, they call it actual value assessment of current value assessment. You've indicated that during the election campaign, when people were soliciting the support of the electorate — you see it as a shell game, and people are beginning to see through the veil, that this kind of cheap trick wouldn't even rate in a third-class circus. Do you feel offended? If I were the minister — I occupied four ministries when I was with the previous government — I would have resigned. Do you believe that Minister Leach, having been caught red-handed, should do the honourable thing, while he has an ounce of dignity left, and resign? You've been deceived.

Mr Pidduck: He's determined to bull it through. Our own minister, Saunderson, was touting a balance sheet which showed that on the uploading and downloading, municipalities would have a slight gain of $50 million or something like that, when significant items were left out of that balance sheet, which meant that nearly a $1-billion deficit was involved.

Mr Pouliot: What are you going to do when you have no place to go with your —

The Chair: Thank you, Mr Pouliot. We'll move to the government side.

Mr Douglas B. Ford (Etobicoke-Humber): Mr Pidduck, on page 2 you mention the people not wanting to keep up the values up to date on the properties. I'd like to point out that if we left that system in, our fire departments, our police departments and everything else would be null and void. We wouldn't have any money to pay them.

Also, you mention on page 3, "whose major wealth accumulation is represented in the 1930s, 1940s and 1950s." Well, in the 1930s you could buy a brand-new car for $400, in the 1940s $900, and in the 1950s $2500. We're saying we have to keep up with the times, with the accumulation of value in the property of any asset, whether it be artwork, pictures, cars, diamonds, gold or anything else. Back in those times, you could buy gold at less than $10 an ounce, and then about 15 or 20 years ago it went up from $35 to 400-and-some-odd dollars an ounce.

I understand the seniors' position, but what I'm saying about it now is — you've mentioned British Columbia in your speech. What they have done in British Columbia is put on a reverse mortgage; the government is loaning them money on their homes. The equity in their homes has gone from, say, a $2,000 or a $5,000 house — in Leaside you could buy a house just after the war for that amount, and those houses now sell for $300,000 or $400,000. Now, you could take a reverse mortgage on that and keep your taxes up to date on that presentation.

We cannot leave things stagnant because it just doesn't work that way in our society. I would say, understanding full well that their incomes are very low but their equity is very high — in other words, their wealth could be accumulated in many other things other than the property, but the property aspect is the thing that has to be kept up to date for maintenance costs, road maintenance, and everybody doing these jobs wants an increase in pay. I would like a reply to that, sir.

Mr Pidduck: If I had bought Bell telephone stock back in the 1920s, 1930s or 1940s, it has accumulated in value and I would have had to pay tax on the dividends.

Mr Ford: You pay tax all the time on stock, sir.

Mr Pidduck: But I'm being double-taxed, because not only have I expended money to keep my house in order — over time, the winds of time have meant a new roof and so on and so forth. There has been accretion in value that has not been without expenditures on our part, my parents and myself.

1040

Mr Phillips: I have a couple of comments and then a question. I think we've heard from the Conservative Party the advice they have — one is in the paper today — and that is, "Sell." The other advice from Mr Ford, I gather, is, "Just put a reverse mortgage on and pay it that way."

At the start of these hearings, because we too are very concerned about the dumping of cost off the province on to property tax, we presented the numbers to the government — you don't have them here, but they're in the record — showing that the province is dumping $1 billion on to property tax. We said, "If you don't agree with these numbers, give us your numbers." Of course they haven't done that, because they know they are dumping substantial amounts.

This is part of a package, make no mistake about it. The dumping is part of it, and it is substantial. We have the numbers to prove it and the government has never — we've been asking for weeks and weeks — disputed the numbers, the $1 billion.

The government has been told, "You're very courageous to move ahead with this." We have not gotten one impact study out of the government. We're going to be asked to agree to this bill in a matter of weeks. We've got four-and-a-half more days of hearings and then we're going to have to agree to this bill. These are the most sweeping changes to property tax in the history of the province and we've been given zero, nothing in the way of how this is going to impact on businesses. We've done our own calculation that says small business is going to be hammered.

Mr Pidduck: A 100% or 200% increase.

Mr Phillips: Hammered, and in the absence of any numbers out of the government, we have to assume they agree that small business is going to be hammered.

Why would you think the government would not have told the people what the impact of this bill will be?

Mr Pidduck: Would the people have bought the Common Sense Revolution if the government had been straight up with what they intended to do? They didn't have a mandate to bring in megacity and mega-tax.

Mr Phillips: Do you think in your neighbourhood Mr Saunderson would have gotten elected if he'd said, "I'm going to amalgamate Toronto and bring in market value assessment"?

Mr Pidduck: No. In my riding, Dianne Poole of your party had the courage to go against Premier Peterson and cabinet and represent her constituents. This man says he hears us, but his isn't an ascendant voice in the cabinet.

The Chair: Thanks very much, Mr Pidduck. We appreciate your taking the time to make a presentation to our committee.

ONTARIO FEDERATION OF AGRICULTURE

The Chair: We now welcome the Ontario Federation of Agriculture: Mr Ketchabaw, Ms O'Connor and Mr Older. Welcome to the committee. We have 20 minutes to spend together.

Ms Mary O'Connor: Thank you very much for the opportunity to be here today. We're representing the Ontario Federation of Agriculture, a membership base of 40,000 across the province of Ontario. I serve in the capacity as the current vice-president of the federation. Dave Older is a dairy producer from the county of Oxford who has been working on this issue for about 10 years. Ed Ketchabaw is our researcher. We're here to respond to the Fair Municipal Finance Act, Bill 106, and I would request of the Chair that our brief be entered into the record. With those opening remarks, I'll turn it over to Dave Older.

Mr Dave Older: Thank you, Mr Chairman, for the opportunity to make our comments. I hope everyone here is aware of what OFA is, the Ontario Federation of Agriculture. With 29 affiliated organizations, 45,000 individual farmer members or thereabouts, and with 48 different locals it is an umbrella organization that certainly does measure the pulse of Ontario farmers and tries to bring their views to government.

We have for almost 40 years now been encouraging the government to undertake permanent legislative reform for farm land taxation, farm land and buildings. In the 1990s there has been unprecedented opportunity to make our views known.

The OFA believes that meaningful farm tax reform must include province-wide uniform assessment; a separate tax rate for productive farm assets — farm land and outbuildings; removal of costs of services that do not benefit local ratepayers from the property tax base; and a long-term commitment from the provincial government for remedial grants to municipalities which encounter the significant shortfalls as a result of farm tax reform. Farm tax reform has a unique impact on the very rural municipalities.

The reforms which propose uniform assessment and limit tax rates on productive farm assets to the 25% or the 0.25 tax ratio are a major step forward towards equity in the tax system. It was first acknowledged in 1970 with the farm property tax rebate program. That was an administrative way to achieve taxation according to the benefit principle. We think this is a permanent legislative way of achieving the same thing, and therefore it is superior to the property tax rebate program.

The farmers of Ontario are generally pleased with the government's promise to implement it; however, the details linking remedial assistance to municipalities need to be brought forward. They need to be clarified and communicated to rural Ontario.

Bill 106, if approved by the Legislature, will amend the legislative authority for the property tax system in Ontario, and the amendments will profoundly change the tax system. We are encouraging you to take your time and to do the job right.

We know there are incomplete regulations and amendments proposed that we haven't had an opportunity to see. We're encouraging this government to give us the opportunity to see the amendments and the regulations in full before we give you our final comment and advice on this particular legislative initiative. In other words, take your time.

The specific concerns with Bill 106: First, how will farm property and value-added agricultural activities be assessed?

The classification of farms: Subsection 7(1) of the bill allows the minister to prescribe classes of real property. The current proposal instructs the minister to include a class called the "residential/farm." We're worried about the distinction between "res/farm" and "farm lands and managed forests." That distinction needs to be abundantly clear because municipalities will have a very keen interest in that interpretation. We're encouraging the government to be specific in regulation in making sure that the right properties get the right tax treatment.

The minister, in subsection 7(3), is given the discretion to define what is included in a property class, and we think that power is rather broad and may be a little vague. We're encouraging the government to rethink its proposal of having the minister have the discretion to define what is to be included in a property class.

The reason we think regulations are the appropriate place for that rather than some sort of further-down policy is that quality control and consistency of assessment are already a problem in rural Ontario. We do not want, as the municipalities gain further direction and control of assessment, a less and less rigid interpretation. In other words, we don't want a too-liberal interpretation of what is actually supposed to be defined and its application. That concludes those.

1050

The valuation of farm land: We think the treatment of farm land for assessment purposes now is reasonably fair in that farmer-to-farmer sales represent the bulk of it. We think some language around the words "used only for farm purposes" may be problematic, and it might be irrelevant in this bill, given that assessors are going to have the opportunity to hive off parts of the assessment and apply different tax rates. We wondered if "only" is now a redundant word in that particular part.

The Ontario Federation of Agriculture supports the current method of farm assessment and recommends that farm property continue to be assessed on its productive use and that the method for valuation should be included in regulations; in other words, much as it's being done now.

The Ontario Federation of Agriculture supports the current assessment rules for the farm residential unit and recommends that these guidelines be included in the legislation or in regulations. Again, we understand how the farm residential unit is treated now. We think it is fair and we would encourage the government to include it in regulations and in legislative framework.

The brief then goes back to the eligibility for the 0.25 tax ratio. It's really important that the government define eligible properties and we think the farm business registration is the appropriate tool to define properties that should be eligible for the 0.25. It needs to have either an owner who is a registered farm business owner in Ontario — those criteria are held in another legislative statute, Bill 42 — or it needs to be rented, in other words operated as a farm by a registered farm business in Ontario. In other words, it is a good policing vehicle to make sure that eligible farm lands are getting the right tax rate and that properties that ought not to get the 0.25 ratio don't. We think that kind of linked working ought to be included in regulation or preferably in the legislative framework.

How will the new assessment system treat farm lands under development? It is a major question for OFA. We have relied on the use rule that farm lands, so long as they are used for farm lands, be treated as farm lands by the tax system. We think the proposed legislation indicates that the power has — I don't need to go through that. I don't want to burden you with too many words and I would prefer to give you more time to ask questions. But if there is to be a trigger mechanism to try to define or distinguish what is farm land from what is actual development lands, we think some triggers might be used. This is still tentative and we want to discuss with Ministry of Finance and Ministry of Agriculture and Food about what that trigger mechanism could be. While it may not be inside Bill 106, we're encouraging the government to continue discussions and allow us an opportunity to help direct policy in that regard.

Phase-in provisions: It gives municipalities the opportunity to exclude certain properties from participating in phase-in provisions or having the municipalities step outside of phase-in provisions. There are examples in the farming community — for instance, the value-added perhaps in the Niagara winery dispute — in which some properties may get pushed into another category either by a court ruling or a municipal board hearing from which very substantial tax increases might result. The 0.25 ratio notwithstanding, some real hits could occur. We think municipalities having that discretion may be heavy-handed and may not be very fair to individual property owners. The phase-in, if it's going to be offered, ought to be offered to all properties, and certainly to farmers in their value-added endeavours.

The Ontario Federation of Agriculture recommends that Bill 106 be amended such that municipalities be mandated to phase in any tax increases for all farm properties over the eight-year period. Further, the Ontario Federation of Agriculture recommends that firm rules be provided as to when phase-ins would cease to apply because of changes to the land or improvements. We're a little uncomfortable with the phase-in provisions.

Complaints: We are suggesting that the Ontario Municipal Board has worked relatively well, that it has a lot of highly trained, highly skilled people. We're suggesting that you reconsider setting the municipal board aside as part of the appeal process. We think there is some merit in leaving that option there, and if you change the appeal mechanism substantially, we suggest you change it in ways that leave it present.

The OFA recommends that Bill 106 should prescribe a fixed period to municipalities to object to a reassessment settlement. In other words, municipalities can't wait in the bushes forever before they come out and object to a reassessment, a successful appeal.

The OFA supports the current familiar mechanism to appeal property assessment values and recommends that the current appeal route be preserved.

Finally, the elimination of the business tax and the farm tax rebate program: This aspect is very important.

We would not want to see the loss of business occupancy tax and the loss of farm tax rebate revenues to the municipalities encourage the municipalities to undertake special user fees, special levies, road frontage provisions; in other words, try to recapture into their revenue base what they have lost in business occupancy tax or in farm tax rebate revenues. It would frustrate one of the stated objectives of this bill.

We think if you're to avoid having that problem, you have to either prohibit municipalities from undertaking those activities or you need to make sure that the community investment funds are clearly enough identified that the incentive for municipalities to undertake that activity won't be there. In other words, if they have the incentive and they have the legislative authority with oncoming bills, it may frustrate your objective. We think you need to pay close attention to that.

The powers given to municipalities: The OFA recommends that the government of Ontario, as much as possible, incorporate the guidelines around assessment of property values for tax purposes into the legislation and regulations.

We understand that municipalities are going to have a larger role in assessment. They're going to be put on a board that in some ways gives direction to the assessment function. I've read enough old tax studies that go back to 1970 to know what went wrong with assessment in the 1970s and to understand that we do not want to repeat those mistakes in 1997. The OFA is not opposed to the transfer of assessment; we are merely stating that we want that to be independent from municipalities such that the assessment function remains clear and unbiased and fair. We want the opportunity to consult with government on that. That is outside of the Bill 106 framework, but it is all part of your many legislative initiatives and it's our first kick at the cat. Let's not go back to 1970 with assessment and get that part wrong.

I finish off the brief from OFA by restating that we think the 0.25 tax ratio is fair and appropriate. We think that in 1970 the government undertook an administrative way to change the tax system so it better addressed the services farmers really consume on land and buildings. We think that municipalities levying residential mill rates on farm land in 1997 is taxing farms far beyond the services they use and far beyond farm land's ability to pay. For those reasons, we hold that a 0.25 tax ratio is fair and appropriate. I'd answer any questions you've got about where it comes from, the origin, because it does go back to some of the review of the farm tax rebate program.

Ladies and gentlemen, thank you for your time.

The Chair: Thank you very much, Mr Older, for a very interesting presentation. For the members' interest, I understand that the Speaker ruled to uphold the ruling the Chair made earlier. I'm not going to go into that on this person's time. We have about a minute each for questions.

Mr E.J. Douglas Rollins (Quinte): Thanks for your presentation. I've had a farming background myself for most of my life. One of the things that concerns a lot of farmers, and you people probably are involved in it too, is that even with the 0.25 ratio, which is a way of balancing it out, when there's a lot severed off farm land, when the farmer severs that and all of a sudden the taxes on that lot basically equal the taxes on the whole property, that becomes a very high problem for some of the farmers, particularly when they severed five or six lots. They get very upset. They're still working that field even though the lots are there, and they object strongly to paying that extra tax. Also, when you have classification of a woodland, to remove it from that woodland classification seems to also trigger a problem. I know you've got some trigger mechanisms.

The other thing is that where you've got a lot of municipalities that are basically 90% farm and rural land, they're going to be under heavy pressure to raise enough taxes to sustain that. How do you feel about those concerns?

1100

Mr Older: I definitely agree that municipalities that have an overwhelming farm assessment base are put at serious risk, and this is the opportunity for municipalities to make the argument to government that it is a provincial interest to preserve and conserve the natural environment, the farming environment included. It is a provincial interest. It is at stake. We all have something at risk here, even if you're not a farmer. Anybody who sits down to the table three times a day has something at stake in trying to preserve good farm land.

On the issue of severed lots, it is my understanding — I would stand to be corrected — that as long as the severed lots continue to be farmed and are cropped, they are for all intents and purposes assessed as farm. It is a point that you and I or others need to clarify. It brings to mind that there are some inconsistencies out there, and some real rigour needs to be applied by farmers in trying to make sure they're being treated fairly.

Mr Phillips: A very well done brief; obviously, the OFA and you in particular know your stuff.

Everybody says that the government's got a lot of courage for proceeding with this thing and what not. Our concern is to try and distinguish between courage and foolhardiness. As we look at the bill, there are some major issues that run the risk, in their haste — we've now got four a half days left of public hearings, we're going to have one day of debate on the amendments, and then it's gone. That's what we're up against in opposition.

You make many good points, but I'll focus on your point about the government enacting a long-term commitment to compensate rural municipalities. The government did two things in this bill. They said to the farm community, "We're gong to be really nice to you and we're going to give you this 25% break on property taxes." What they didn't mention publicly — you knew this — was that this gift came straight from the municipalities, because they are going to lose all that revenue. The second big thing is that they said to the business community, "We're your friend; we're going to eliminate the business occupancy tax." That's 11% of the revenue, but that wasn't the province's to give; that was municipal revenue. They've given away two things that weren't theirs.

We are going to be forced to pass this bill before the government will give you, or us, that commitment on the

long-term commitment. We've done all the number crunching, and the province is unloading $1 billion on to the property taxpayers, and that's after their funds. We've put all the numbers out there and we've said to the government, "If these numbers are wrong, prove us wrong." Of course the government has not proven us wrong; the figures are right.

The reason I raise this for the federation is that I'm afraid we may not be able to get the assurances you want prior to the bill being passed. Do you have any recommendations for us? Should we be encouraging the government to hold up a little bit on the bill until you get those assurances? I don't want you endorsing action that's going on in the House, but so you have any suggestions to the government saying, "Listen, we need these assurances before you pass the bill," or should we just stand aside and let the government pass the bill?

Ms O'Connor: I'm going to let Dave respond to that, but I would just like to comment on your terminology that "They're very nice to farmers." I agree that we have smiles on our faces, but I would also comment that the government of the day could also be described as being very smart in promoting some efficiencies. What's gained by getting rid of the farm property tax rebate, which in itself was a remedial measure, is smart. Yes, it's nice for us, but it's more reflective of the government of the day finally taking some action that needed to be done for a long time.

Mr Phillips: I agree with that. I'm just saying that unfortunately now, the municipalities have —

The Chair: Thank you very much, but we really are running out of time on this issue.

Ms O'Connor: I want Dave to have the opportunity to respond to that.

The Chair: You can make some brief comments, Mr Older.

Mr Older: This bill requires adequate discussion and I think OFA will need to have another opportunity to comment on regulations when they're available in full and an opportunity to see amendments as well. It's critically important that we get it right.

Mr Pouliot: Thank you very kindly. Obviously, you convey the confidence of knowledge, technical and every which way. You put the point across very well. But there is no windfall here; there are only winners and losers. What you gain on the farm, you lose on the house, in many cases.

In terms of the phase-in, it's a nice theory, it's food for the boudoir and the gallery: "We wish they will." But governments at the municipal level will be under a state of seige, 10% to 15% less, because this is not revenue-neutral. Some will call it gouging. They might have to sell the grader that leads to your farm on the main road and you might have to pool your money to buy a grader.

Mr Older: On the question of this whole framework of reform in assessment, we think it is an important enough issue that the government should proceed. Not to proceed with uniform assessment across the province would be a foolhardy thing. It is long overdue.

On the issue of community investment funds, municipalities should apply and get the funds they need when they are holders of resources like agriculture, managed forests and conservation lands, in which the entire community of Ontario has a stake. I think there is enough power in the argument to put it into an enshrined framework of legislation. If people suggest that a legislated rebate mechanism is possible, a legislated community investment fund is also possible. In fact, I would strongly encourage this government to consider those options to try to give municipalities some stability over the long haul.

I would not discourage this government from the initiative of property tax reform. It is overdue. The framework is generally right. Our support for it is conditional; we really have to work on some of the details.

The Chair: Thank you very much. We appreciate the federation's well-thought-out and complete presentation.

1110

JOHN HOGG

The Chair: We now welcome Mr John Hogg to the committee. We have 20 minutes to spend together.

Mr John Hogg: Good morning. My name is John Hogg. I have been involved in the assessment issue since 1992 when as president of the Oakville Chamber of Commerce I became concerned about the impact on our members of region-wide market value assessment being implemented in 1993 using 1988 values.

Since that time, I have acted as co-chair of the Oakville citizens' committee on property tax reform. Currently, I am co-chair of the citizens' tax committee and a partner in the Appealing Group, a property tax consulting business assisting property owners in obtaining fair and equitable treatment under the assessment act. I have also spoken at numerous ratepayer group meetings across the GTA.

I appreciate the opportunity to discuss Bill 106, the Fair Municipal Finance Act, with you today.

I would like this committee to note five key points:

(1) The proposed assessment system is not stable.

(2) The move to the proposed assessment system is bureaucracy-driven.

(3) A local option of different assessment systems would bring about efficiencies and reduce the cost of assessment.

(4) The competency of the Ministry of Finance's property assessment division, PAD, is less than excellent.

(5) Manipulation of data to achieve desired results does take place.

Stability: Let me first state that my preference in an assessment system would be that it not be based on current value. Value is erratic and, as has been seen, can move up and down swiftly. At a meeting with the Honourable David Crombie, I pointed this out and gave him a study we had conducted on sales of similar properties since 1975 in several homogeneous neighbourhoods within Oakville. We analysed the sales within each neighbourhood and then allocated a total amount of stable revenue requirements, thereby eliminating the impact of inflation among all the neighbourhoods.

The graph illustrates the percentage change in the tax requirements from each neighbourhood. You will note that the graph starts in 1979. This is to obtain the

increase or decrease from 1975 to 1976, and then to apply the three-year rolling average suggested by the GTA Task Force and Who Does What. As you can see, stability is not evident even when the three-year rolling average is utilized. Under Bill 106, three-year rolling averages won't even start until the year 2006.

I'm the first one to admit that this study is less than perfect. However, to the best of our ability and as a volunteer committee, we submitted this with a request to work further with the Ministry of Finance to ensure it accurately portrayed the proposals of the GTA Task Force and the Who Does What panel. We are still waiting for a reply.

Labour-intensive: The move to annual updates is a bureaucrat's dream come true. In what better way could the property assessment division ensure a never-ending workload? It has been stated the new system will use computer-generated models which will easily update the assessment system at the push of a few keys.

While I applaud the PAD for making the leap out of the dark ages and into computer-assisted mass appraisal systems utilizing multiple regression analysis, it will not eliminate the need increase the bureaucracy. Indeed, just the opposite will be true. This will be especially true during the implementation period, where some $62 million will be spent.

While on the topic of the implementation, I offer a brief chronology of the events that have taken place. On September 10, 1996, the assistant deputy minister of finance in a letter to all regional commissioners stated, "The ministry is aware that the division cannot deliver reassessment in the time frame set by the government and still carry out day-to-day assessment operations, with its current staffing level."

On September 11, a request for qualifications, the RFQ, appeared in the Globe and Mail.

One week later, on September 18, 1996, the property assessment division held an RFQ meeting, with no presentation whatsoever. The meeting started at 9 am and adjourned at 10:10; it was scheduled to adjourn at 12 o'clock. Attendees included the BC Assessment Authority, Coopers & Lybrand, KPMG, Hurontario Assessment, Royal LePage, IBM, OPSEU, Bell and Howell, and Arthur Andersen. Some of the comments that came from the attendees were:

"The meeting had a sour tone."

"No presentation was given. They just opened the meeting asking for questions."

"We are concerned about the doability of the project. Our best course of action is to refrain from bidding."

"We have a level of expertise to offer that wasn't being requested."

"Cooperation from MOF is lacking."

"We are architects rather than builders, and the plans were all set before we got there."

The deadlines for submission of the RFQ came on October 7, 1996. Few attendees responded to the RFQ, preferring not to work on what was perceived to be a doomed project. The RFQ effectively exposed the property assessment division's operations to its peers and the request for the private-public sector partnership was declined by peers.

Cole Layer Trumbell Co, the oldest and largest private sector mass appraisal firm in US, submitted an RFQ with the intention of keeping its name in the hat. Its services were later rejected by the property assessment division.

I'd like to touch on the local option: There has been much discussion about various assessment systems for some time now. MVA, AVA, CVA, UVA, UA, APA etc have all been bandied about. In some areas of the province, one system might be better suited than another. At one time, when unconditional grants from the province to the municipalities were based on the amount of assessment, it would have been ideal to have all municipalities assessed the same.

However, as these grants continue to decline, so does the province's reliance on a measure to allocate them. If a wealth measure is needed, there are alternative ways of obtaining one. Statistics Canada offers numerous measures that could be employed at little or no cost to the provincial or municipal taxpayer.

Without the need for a province-wide assessment system, it becomes possible for municipalities to have different systems of collecting their revenue requirements. If the province were to offer a menu of assessment systems to municipalities, the most efficient and cost-effective method would soon become the most prevalently used system. Bill 106 proposes that after 1997, the cost of assessment be returned to the municipalities. Why not give them the opportunity to become as efficient as possible? If the government desires a unified system across the province, a sunset clause could be placed on the various menued systems, with the most used system becoming the government's choice.

Besides reducing the costs of both the assessment system and the appeals process, this would have the effect of bringing market disciplines to the decision-making process, surely something all members would applaud.

Competency levels: Last week I attended a seminar delivered by the Law Society of Upper Canada entitled Property Tax Assessments: New Structure, New Opportunities. Speakers included the Honourable David Crombie, the assistant deputy minister from the property assessment division, the chair of the ARB and Her Worship Hazel McCallion, to mention a few.

Listening to the bureaucrats and trying to wear the hat of people with little inside knowledge of the assessment system, one could easily be convinced that the proposed legislation would be fair and equitable. Indeed, Councillor Kevin Flynn, who spoke to you yesterday, was a newly elected councillor in the mid-1980s when the town of Oakville was debating the implementation of MVA. He was convinced by the ministry officials that MVA was best for Oakville. It was not until 1992, when the region of Halton was trying to implement region-wide MVA and he was forced to look into the issue a little deeper, that he realized how flawed market value really is.

Being involved in representing clients at the Assessment Review Board, it has become apparent to me that one's success often revolves around which adjudicator is presiding over the hearing. Standards and quality of the service being provided are extremely varied. This must be standardized.

We routinely analyse the way in which the PAD completes their mass appraisals. In so doing, we continually run into inconsistencies. The broad-brush approach taken often does not take into account local factors affecting real estate values. Data on individual properties will, more often than not, be incorrect. Indeed, it is often very difficult for us to understand the methodology used by the assessors. I pity the layperson trying to understand how his or her assessment was determined.

Apparent manipulation of data: The land value is an ever-increasing portion of the total market value. As such, the need for accurate land residual studies has increasing importance. The PAD routinely completes these and checks them for accuracy using A to S, or assessment to sales, ratios. Having an average A to S ratio of plus or minus 5% is considered very good.

1120

All statisticians know that there are always samples within a data set not behaving like the rest of the population that should be removed from the analysis. Therefore, a great deal of care must be taken to ensure that the sample actually used represents the total population.

In fact, if one's only concern was to illustrate the accuracy of a methodology, one could simply pick the population that best illustrates the methodology as accurate. Let's suppose that all sales are analysed and produce a less than favourable average assessment to sales ratio. One could eliminate all the samples with less than favourable individual A to S ratios and produce a report illustrating the methodology to be a good one, at least on the surface.

Two members of OPSEU presented to you earlier this week and indicated that the assessors' morale was at an all-time low, that the timetable was too short for the reassessment project and that quality was being sacrificed for quantity. Placed in the situation of the assessors churning out these reports, where would you first turn to cut corners?

I would like to turn your attention to the first two pages of the appendix and review why some of the property assessment division's studies are deleted or included. You'll find that on page 2 of the appendix. This is a report the Appealing Group purchased from the property assessment division. In point form, I'll explain some of our grave concerns.

(1) PAD collects all the sales which take place in a homogeneous neighbourhood.

(2) PAD determines which sales qualify as willing seller to willing buyer.

(3) PAD deletes those sales which in their opinion are not willing seller to willing buyer.

(4) In this study, you'll find that 40 sales were observed by the ministry and 13, a very high percentage, were deleted.

(5) One deletion was because of "heavy fire damage at time of sale." It did not have any fire damage. The bank's appraisal doesn't observe any fire damage. The Oakville fire department didn't visit the property in the six months prior to the sale and a letter from the previous owner indicates that the only fire they ever had during their 40-year ownership took place in the fireplace.

(6) Five of the deleted sales were deleted because the sales questionnaire was not returned, leading one to assume that the other 27 sales returned the sales questionnaire. Not the case: Many indicated they did not and would not have returned the sales questionnaire.

(7) Two sales were deleted because of additions to a house. I spoke to the owners, who indicated that additions did not take place until about a year after the purchase and had absolutely no impact on the purchase.

(8) One sale analysed: $100,000 of renovations started prior to closing.

(9) In one situation a wife took a year off work to act as general contractor on renovations.

(10) One sale analysed was purchased fully furnished, without adjustment for the chattels.

(11) One sale didn't even take place.

With this information, one can only conclude the fox is looking after the chicken coop. By adding the deleted sales back into the analysis, the average land residual value is greatly reduced.

One of the recommendations from the Who Does What panel was that a monitoring body composed of membership from the Association of Municipalities of Ontario and the Ministry of Finance be established, a recommendation for which Her Worship Hazel McCallion rightly takes the credit. Last week, Mayor McCallion strongly criticized the deputy minister of finance and the AMO for not ensuring this recommendation had been taken more seriously.

The need for an independent audit of the property assessment division's work is obvious. If we are to obtain a quality assessment product, we must ensure that high professional standards are being employed.

Conclusion: In addition to keeping in mind the key points of this presentation, I ask the committee to complete one additional task prior to reporting back to the Legislature. Appendices 3 and 4 are a list of those firms who responded to the RFQ placed in the Globe and Mail on September 11, 1996, by either attending a meeting on September 18th or submitting a bid. Ask some of those who attended the meeting and did not submit a bid, or those who did submit a bid, to appear before you, either in person or by telephone. The guru of AVA, the BC Assessment Authority's commissioner and CEO, Tom Johnstone, did not submit a bid. Why?

You now have the tools required, appendices 3 and 4, to speak to those peers of the Ministry of Finance's property assessment division who did and did not reject its request for assistance. Please use them. Thank you.

The Chair: Thank you very much, Mr Hogg. That leaves us about one minute per caucus.

Mr Phillips: This is proving to be quite an interesting process. Probably everybody in Ontario has decided, "We've got to sell the old house; we're moving out." We're being asked to buy this thing, Bill 106, and we're being told, "You have to make up your mind really quick." In presentations so far, even though the thing looked good at the outset, the roof's leaking, the furnace doesn't work and now you're suggesting that the foundation's built on quicksand. Your presentation is quite serious. As I say, it sounds like the worst nightmare, which is that the very foundation the thing is being built on is going to slide away on us. Am I overstating the case?

Mr Hogg: No.

Mr Pouliot: I looked at two bills yesterday and last evening thought about the blind helping the lame; when that happens, they march forward. At 4 this morning, as I did more reading, they weren't marching very quickly.

There are 3.8 million units being assessed — unprecedented; that's never happened on the continent — and this has to be done in a period of less than 18 months, by April 1, 1998. A lot of it is contracted out in the hands of people who have never assessed before, with a very compressed, short period of training. As a professional, myself as a consumer, do I have reasons to fear? Would I be justified in feeling, as I speculate, that we could be in a major mess?

Mr Hogg: Yes.

Ms Bassett: Thanks for your presentation. If you think back, the province assumed responsibility for the property assessment on January 1, 1970, and did it in order to standardize assessment practices and to reassess all properties at market value. If municipalities were to be responsible for choosing their own assessment method, the province would revert to a patchwork of assessment models.

What would happen to all those homeowners who are beyond the borders of — say two municipalities chose to have different assessment models. One would be assessed one way and one another. This would be unfair to them and it would go back to the unfair system we have today. It's a regression, in my view. What solution would you have?

Mr Hogg: My solution would be to put a menu of systems up available to the municipalities, and in a very short period of time, maybe three to five years, I think you would find that the most efficient and best system would be utilized by all the municipalities because they'd have to do that to keep their budgets in line. Put a sunset clause on all those systems and just pick the one that's most prevalently used. My phone number's on the front of the presentation. If you want to call me, I'd be happy to discuss it with you.

The Chair: Thank you very much, Mr Hogg, for taking the time to make your well-thought-out presentation to us. We appreciate it.

1130

TAXPAYERS COALITION (PEEL) ONTARIO

The Chair: We now welcome the Taxpayers Coalition of Peel, Mr Mitton. Welcome to the committee. We have 20 minutes to spend together.

Mr Blaine Mitton: Thank you. Good morning, everyone. My presentation isn't to do directly with Bill 106 per se, but it has to do with the philosophy that I see as important behind it. Thank you for allowing me to do this presentation on behalf of the Taxpayers Coalition of Peel.

First, it is wonderful to see a government willing to attempt to make changes in a province which has a great opportunity to be first-class but is loaded with debt from previous governments who have been gutless to take bold action. People with vested interests have had control for far too long, with no respect for those who have paid the bills nor for those who have had to compete in an international market.

As background information, there are some things that are very important and must be kept in perspective to ensure that our eye is on the target, and philosophically we know why change is necessary.

Our unemployment rate is still approximately 9.7%, while Ohio is 2.6%. We need to keep changing and cutting costs. We are not out of the woods yet. The US controls the interest rates. We cannot even compare US costs to ours, as we cannot afford the equivalent, due to our high unemployment and high tax rates.

We will have a $120-billion provincial debt before the deficit is under control. There is no room for complacency or wavering.

Canadians have seen their share of the domestic market eroded by more that one third since 1980. That's from the Alliance of Canadian Manufacturers and Exporters.

To understand this better, just visit Canadian Tire, Wal-Mart, Zellers, etcetera and look at the labels to see where the majority of our products are made. Obviously, we are not competing. In the real world, the consumers want the best value for their hard-earned, after-tax dollar and therefore buy product at the lowest cost. More and more, this is not from the Canadian manufacturer. Remember also that only a small percentage of our people will work with computers; the jobs are in manufacturing and those that serve industry. Maybe we can get some real job and wealth creation started if we get our costs in line and taxes lowered.

Proceed with removing education taxes from property taxes. This is important when one looks at the number of bankruptcies and tax arrears, in other words, the ability to pay. The province should have a far better ability to get education costs under control.

Municipalities can more readily take responsibility for welfare and subsidized housing. Maybe they will be closer to the action and do a better job of managing what they can afford. The rubber will get closer to the road.

To the issue of Bill 106: We know that property tax assessments are not fair and that some property owners are not carrying their fair share. Get on with actual value property assessment. It will probably need some improvement as time goes on, but it is time to get the job done. It does not need to be cut in stone, but it needs to change with the times, based on actual values. Get on with it: Do it, fix it, make it work. With computers these days, this should not be an arduous task, although, unless managed, some of our bureaucrats could make this a career. I suggest it be contracted.

The megacity should not be a big deal either, but by the time it is redesigned by some of our politicians, it may look like a camel. Get on with the megacity consolidation. The opposition parties should be ashamed of their recent hostage-taking of the provincial government. Taxpayers are fed up with this obstructionism and delay of change which can save us millions of dollars. Do some of these politicians still not understand that we will have a $120-billion debt, are non-competitive as a country, and need to get our act together? They have a responsibility to the people of this province.

Besides this Bill 106 on actual value assessment, which is a move to fairness, costs need to be cut in education, health and justice. The opposition parties appear to be more a part of this problem than the solution, by holding up processes that will help get our costs under control and allow us to be more competitive and create some jobs and wealth.

Let's get Bill 106 legislation passed and implemented now, not two years from now. It is time to move towards a system that is more equitable and will serve us in the future. At the same time, let's cut the costs so property taxes can go down for some and lessen the impact for those who have not been paying their fair share.

Stay the course. Get on with it. Thank you.

The Chair: Thank you very much, Mr Mitton. We have about five minutes per caucus for questions, and we are starting with the third party.

Mr Pouliot: I want to thank you for your presentation. You have a direct style about you, and one cannot help but appreciate this.

In terms of the latitude given to you, I respect you and your point of view in terms of being ashamed of ourselves. I won't prolong this, but we work within the rules; find yourself a riding and change the rules. That's fair game. That's the system in which we work. This very party, which is courageous by the account of many — but I won't bore you by reading all the Hansards. You have better things to do with your time.

I would wish to have your opinion, because we all desire to have a balanced budget. I think it's commonsensical. If you cannot pay the bankers, there's very little possible. However, if you can pay the bankers, it give you more latitude, and this debt was accumulated regardless of political stripe. Nobody invented the wheel here. It's a cumulative process.

You have a commitment, and you say "cost." I think you're quite right that cost is always a factor. It's the glass jaw of every financial agenda of any government. You have an aging population, for instance, and that puts on taxes. The College of Physicians and Surgeons belongs to the best union in the world, so you have to reconcile that.

The government has an \$11-billion deficit, and they say, "Yes, we'll make ends meet in the first term of office," and you encourage them to do that. But while you do this you must still provide services. It's easy to balance the budget; it can be done in one year if you dislocate. Why do you sanction a government that gives \$5.4 billion in tax cuts — and that's a choice they made. Doesn't it make more sense to take that \$5.4 billion and apply it directly against the deficit, where it has 100 cents impact on every dollar, as opposed to keeping your fingers and your toes crossed hoping that, manna from heaven, everything is going to fall out right? The money will filter through, some of it, to Grand Cayman, some of it to Switzerland. What are your comments? This is bad economics. If you mean what you say, when you balance the books don't give me a tax cut; put it against the deficit.

Mr Mitton: I hear what you say. I'd like to comment on your first thing about the rules. It's time we did what is right, not who is right.

To go on to answer your other question, cutting taxes is like an investment. If I run a business, a manufacturing business or any business, when I do what this government has done, what they're really doing is investing in this country and our people. When you allow the people to have that kind of money, they spend it, it gets reinvested, we purchase, it generates new tax, new revenue. I don't have any problem with that approach. The revenue generated by the number of turns in which that money comes back into the system I would hope you'd look at and be serious about, because it is very important.

I work with China, I might just add, if you don't mind, Mr Chairman. I source North America for parts for China. We've got problems far more serious than even what I'm indicating. Our ability to compete is really a very serious problem, not identified by the parties in this country, I don't think. If anything goes sour on us, including interest rates, including more imports in terms of products, we have less and less ability to control where we are. The sooner we get our debt in line, the better off we will be, and we are not doing it. We're not taking action fast enough to make this happen.

Mr Ford: Mr Mitton, I agree with a lot of your philosophical point of view here. It's not easy and not perfect, what we're doing, but I believe we're on the right track. Being a businessman and extensively in the markets and different things like that, I understand why people invest in certain areas, because there's a return on that investment and there's hope down the road.

I firmly believe that in this Ontario and this Canada, now is the most opportune time to do these things and progress in this country, because our dollar is low. That's not hard and fast, because it could be like the lira and could go down to be worth half a cent. People are quite complacent here and happy with the status quo as long as the income is still coming in, but I say there's an end to that too. We have to get progressive, we have to get competitive, and that's what our government is trying to do. I agree with what your paper says, but again I stress that it's not perfect but it's a start in the right direction.

1140

Mr Mitton: I don't think you're ever going to get it perfect but I think you've got to get on with it. You've got to do it, fix it and make it work. What we're doing today is not perfect because we have a totally unfair assessment basis, and that's sad. I hope the people who are specific about these things understand and take that into consideration. You have to move in a direction that makes some sense, and you'll never be perfect.

Mr Ford: The opposition always says, "Slow down." I look at it this way: It's like travelling; do you want to travel on a Kitty Hawk or do you want to travel on a 747? You'll get there, get the job done and be back before they get off the ground.

Mr Pouliot: You're still with the horse and buggy.

Mr Mitton: You're creating the horse and buggy. Sorry.

Mr Phillips: I appreciate your presentation. My background is business too. I started two companies from scratch, with 300 employees. I have some idea of business. My background in business always was that if you're buying something, you do a little bit of due

diligence on it. Maybe you and I have a different philosophy, but I tend not to simply go out and buy something; I look at it and make sure it's right. We're asked to buy this, the bill you're here strongly supporting.

One of my concerns about the bill, and I'm sure you're aware of this, is that it shifts tax burden on to small business. I think that's wrong, that it's going to hurt the economy, but I gather you're comfortable with that, that it doesn't worry you.

Mr Mitton: Part of my presentation has to do with cutting costs. I'd guess, if this all gets sorted out properly and the government is allowed to move forward in terms of cutting costs, it will not be so detrimental to those people who will have increased taxes in this, because the taxes overall will be reduced. That's what we've got to get to. We have to go in parallel with two different programs: one to cut costs, the other to get the assessment fair. These things need to happen in a parallel mode. I hope this government gets on with it and makes it happen, because we don't have a lot of time. I'm saying, with my Chinese experience, that our chances and our ability to create jobs, the way we're doing it, is very detrimental. You should think about it in terms of your children and your grandchildren, because their ability to get jobs is going to be very —

Mr Phillips: I appreciate that. The Canadian Federation of Independent Business said the elimination will harm small business, but that's not a problem for you.

Second, you're very pleased to remove education from property tax. As you know, the bill keeps education on the business property tax. I gather you're supportive of that.

Mr Mitton: I think the province has to get more control of the education system, because the school boards have not done a good job at that at all. I have an eight-year-old in school and when I look at what's happening in the US and what's happening in Canada and our quality of education, particularly relative to the costs, it's atrocious.

We need to get two things going: One, we need to speed up the computer technology and the computer programming that's available to teach kids these days, which is just amazing, compared to this child-centred learning business. That's a crock.

We've got to do a lot of things fast and in parallel or the 9% unemployment rate is going to stay there and possibly get worse.

Mr Phillips: I think 40 states and all the provinces in Canada now spend more than we do on post-secondary education. Is that a good idea, in your mind, or a bad idea?

Mr Mitton: I think we spend too much. Post-secondary students pay for a portion of that, so I guess you can ameliorate that somewhat. The primary and secondary education systems are what I'm more familiar with, and spending there is out of line completely.

The Chair: Mr Mitton, thank you very much for coming in and sparking a somewhat lively conversation.

Mr Phillips: You're bringing all these Chinese products into the Canadian Tire stores.

Mr Mitton: No, I'm not. I'm sourcing North America for products for China. I'm doing the reverse. I've got to tell you, it's a very competitive market.

The Chair: Thank you very much, Mr Mitton. We appreciate your time before the committee.

TORONTO ARTS COUNCIL
TORONTO ARTSCAPE

The Chair: We now welcome the Toronto Arts Council, Ms Bermonte and Ms Wright. Welcome to the committee.

Ms Anne Bermonte: Thank you. I'm joined by Susan Wright, who is the general manager of Toronto Artscape.

Over the past three years, numerous reports and experts on urban issues have outlined the important economic, social and cultural contribution of the Toronto-based arts and culture sector to the city, the region and, by extension, the province. The GTA Task Force report demonstrated that Toronto's cultural assets are an important component of not only the quality of life and economic wellbeing of the city but of the whole urban region. As with other issues facing the GTA, the cultural vision of the Toronto region can only be considered in the context of creating and sustaining a competitive urban centre, an urban centre that competes as a destination for visitors, as a place to live and conduct business, as a place where the value added components of knowledge, creativity, design, information and idea-driven industries are encouraged and nurtured.

This value added contribution of the arts to our community has been noted many times. In The Fourth Era: The Economic Challenges Facing the GTA, a study prepared by the Toronto office of the Boston Consulting Group for the Greater Toronto Area Task Force, Toronto is cited as third only to New York City and Chicago as the head-office location for the largest 600 companies in Canada and the United States. Head offices, as the study indicates, are very valuable because of the jobs they create directly and indirectly through service purchases.

This business-magnet role of the arts is one of the reasons Toronto has also been cited in Fortune magazine and Places Rated Almanac for several years running as one of the 10 best cities in which to live and to do business.

The city of Toronto, like all great urban areas, possesses a thriving arts and culture sector in its downtown core and an extraordinary wealth of cultural institutions. This critical mass of arts organizations in downtown Toronto can be attributed to the traditional clustering effect of the arts that takes place in all urban centres. The city of Toronto has also strategically invested in funding of artists and arts organizations and has implemented planning policies that promote the arts. In addition, throughout Metro and the region there exist a significant number of cultural facilities, such as the Ford Centre for the Performing Arts in North York, the McLaughlin Gallery in Oshawa and the soon-to-open Living Arts Centre in Mississauga, that benefit from their proximity to the critical mass of artists who for the most part live and work in the downtown core.

In fiscal 1993-94, the Toronto non-profit arts and culture sector collectively generated a national economic impact exceeding $1 billion. The overall 1993-94 economic impact of the arts and culture, including cultural

industries, in the GTA was $8.4 billion, 71% of Ontario's total cultural impact.

Tourism Toronto has estimated that cultural tourism is a $1-billion industry in the region. Arts and culture jobs represent 10% of all GTA employment. During 1993-94, Statistics Canada reported 225,000 jobs in the GTA related specifically to the arts and culture, that is, 60% of provincial cultural employment. This figure does not include employment generated in other industries as a result of cultural activity. Even so, it represents a little more than 10% of all GTA employment.

The health and wellbeing of city of Toronto arts organizations has a very direct impact on employment opportunities and economic activity across the GTA. An example of how city of Toronto-centred arts activity provides economic impact and employment for the region can be seen with the Canadian Stage Company. This non-profit theatre operating out of the city of Toronto-owned and -managed St Lawrence Centre procures 40% of its suppliers — printers, graphics, lumber supply, mechanical and electrical firms and services — from a GTA-wide area outside of Toronto.

Another example is Edge and Company, a set construction firm located in Oakville. In establishing this firm which specializes in high-tech automated theatrical sets, proprietor Chris Edge built on the experience he received from his initial training in the non-profit, subsidized theatre. In addition to many years at Stratford and Muskoka Summer Theatre, he worked for six years at Toronto's Young People's Theatre.

The theatrical boom taking place in Toronto in the 1980s helped to get him established. The Toronto market, both commercial theatre and non-profit, were his first major customers. He built shows like Miss Saigon for Mirvish Productions and Sunset Boulevard for Livent as well as shows for a number of Toronto's non-profit theatres like Canadian Stage. His company has become so successful that today it employs approximately 100 highly skilled and highly paid workers: electricians, carpenters, painters, sculptors. While he continues to count Toronto theatres as important clients, 95% of his business is now for the US and Broadway market as well as for American network television. Last year sales soared to almost $7 million, double those of the previous year.

1150

The company's strength lies in its leading-edge, high-tech, computer-based design and automation systems and construction. Its success is based not only on the vision and ability of its founder but also on the talent pool of innovative, creative workers adept at independent problem-solving, just the kind of individuals working in just the kind of knowledge industry that Nuala Beck describes in her book The New Economy. These knowledge-industry workers are just the kind the arts help to foster. We cannot afford to lose this critical mass of talent and knowledge that forms a vital sector of our economy and defines our quality of life.

Ms Susan Wright: I'm going to take up from there and talk about what the actual impact of Bill 106 will be on this non-profit arts and cultural sector.

Today, except for a handful of arts organizations that are property tax exempt, most non-profit arts organizations pay property taxes, usually at prohibitive rates. Under Bill 106, these organizations could see their property taxes increase by at least 50%, and this figure is before the impact of any downloading or reassessment is felt. This is based on analysis from Peter Viducis of the economic development division of the city of Toronto and it comes from the following figures.

Bill 106 will result in these extreme increases because:

It eliminates the business tax without making any provision for non-profit organizations. Under the current Assessment Act, non-profit arts organizations do not pay business tax, and the landlord only pays 85% of the realty tax that would be levied on the space if it were occupied by a business. Bill 106 will eliminate the business tax and the preferential rate for commercial units occupied by non-profit groups. The government will be looking for ways to absorb this revenue loss, either by cutting services or by increasing realty taxes. If total taxes are unchanged and the lost revenue is made up from increased commercial realty taxes, as the bill seems to allow, the total taxes paid by non-profit groups on net leases will rise by slightly more than 50%, and that's immediate, before any of the eight-year phase-in plan comes into effect.

Bill 106 also no longer allows non-profit organizations to pay property taxes at the residential tax rate. Currently, the mill rate applied to non-profit organizations is the same as the residential rate or 85% of the commercial rate. Withdrawing this provision creates an immediate tax increase of 17.5% on all non-profit property taxes. Also, we understand in the proposed draft regulations on property classes that the residential class is being defined to include various non-residential uses, which probably makes sense, but these include golf courses and ski resorts. They do not make any provision for non-profit arts organizations like theatres, galleries, concert halls and studios. I think the government needs to re-examine its focus for non-profit organizations and also for provisions that relate to leisure activities.

Bill 106 levies property taxes based on current value according to highest and best use. Highest and best use of most non-profit arts facilities will lead to tax assessments many times higher than is warranted by the actual use of the buildings. Non-profit organizations by definition do not make money. Taxing them as if they do is shortsighted and punitive.

A couple of cases in point: The Canadian Children's Dance Theatre in its Parliament Street location is currently paying $32,000 in annual taxes, or 28% of its earned income. This is before the effects of Bill 106. Toronto Artscape, the organization I work with, has a number of buildings in which it provides studio, performance and administrative space for artists and non-profit arts organizations. At 60 Atlantic Avenue, we currently pay $37,000 on total rent revenue of $166,000, or 22% of earned income. At 179 Richmond Street West, the Music Gallery's centre for contemporary music, current taxes are $30,000 on a total rent of $68,000, a 44% assessment. Currently, obviously, taxes paid by non-profit organizations are very high. Bill 106 will only increase these and increase them possibly by more than 50%. This would lead to tremendous hardship for non-profit arts organizations, hardship they are unlikely to be able to survive.

Ms Bermonte: We've come up with some solutions that we'd like to propose to you. Basically there are three recommendations. The recommendations are intended to mitigate the potentially negative effects of Bill 106 on the arts community and to ensure that the critical mass of arts activities and facilities continues to contribute significantly to Ontario's economy and quality of life. The Toronto Arts Council and Artscape recommend the following with respect to assessment policy and practices and tax policy options:

(1) That all arts organizations be treated equally, either through the establishment of a consistent tax assessment policy to provide grants in lieu of property taxes for all facility-based arts organizations, or the establishment of consistent assessment and tax policies which enable all organizations to pay a fair and reasonable amount.

Such a consistent policy in this area would, in addition to being fairer than the current system, limit assessment appeals. Today taxes paid by cultural facilities vary widely, from none at all for Massey Hall, the Elgin and Winter Garden Theatre, the Bata Shoe Museum, the Ford Centre for the Performing Arts and the Hummingbird Centre, through taxes ranging from 70 cents per square foot to over $3.50 per square foot in non-profit arts facilities in downtown Toronto.

Other jurisdictions such as the province of Quebec have established a policy of providing municipalities with grants in lieu of property taxes for properties occupied by non-profit arts groups registered as charitable organizations. The city of Montreal itself provides further rebates to non-profit arts groups for service taxes like water and sewage. In addition, these organizations do not pay any school tax unless a building has a residential component, in which case a tax pro-rated according to area is charged. Alberta municipalities can also exempt non-profit organizations from property taxation.

(2) We recommend that non-profit arts and cultural organizations continue to be taxed at the residential tax rate, either through a separate property class encompassing all non-profit arts and culture performance, administrative, exhibition and production spaces or that the residential class be expanded to include properties occupied by non-profit arts organizations. We don't want to have to see arts groups having to open up mini-putts in their lobbies in order to meet this criterion.

(3) That the current value of cultural facilities — all properties owned or rented by arts organizations and to which the public is invited to attend exhibitions, workshops, performances or readings on a regular basis — be determined on the basis of current use based on a three-year rolling average of gross earned income up to a specified cap.

The arts community is experiencing extreme financial stress in these times of massive funding cuts. Without such provisions built into the property tax system to shield the community from volatile market forces, Bill 106 could result in significant deleterious effects to Toronto's critical mass of arts and culture groups.

The Chair: That leaves us with about three minutes per caucus, and we'll start with the government caucus, Ms Bassett.

Ms Bassett: Thanks for your presentation. I'm really glad that you came forward because you are forcing us to focus on the significant contribution the arts make. We are well aware of it in terms of the film industry and the arts community. Now it's a matter of looking at what we can do to prop you up or sustain life, and you do make a number of important recommendations. Is there anything in particular? You've put several options. Is there any one that you favour that you think would be best for you, or do they have to be together?

Ms Bermonte: I think one would be a separate property class for the non-profit groups which would also be taxed at the residential rate. That is a very, very important issue because without it there is an automatic increase of more than 50%.

Ms Bassett: One of the people who was presenting from one of the arts communities this week mentioned that there's a very fine line between what is profit and what is non-profit. Sometimes it's just the people with the smarts who get to be non-profit. I don't mean it in any deleterious way to say that, but she was arguing that's not a fair classification. I just was grasping, because we'd have to delineate what is and what isn't and then it's up to you. Some are so small that you don't have the wherewithal to go and find out what all the latest tax dodges are etc.

Ms Wright: That's difficult. It is however true that a non-profit organization — it's just a question of incorporating yourself as such. There has to be an intent to make a profit to be a profit-making organization. There's absolutely no reason why any incorporated company can't change their status to non-profit if they prefer to operate that way. Perhaps, depending on what happens, they would find it far more advantageous to do so. But I think we can only really speak for the non-profit.

1200

Ms Bermonte: We actually thought very much, because we have in the past spoken to David Mirvish around the province. He's encountering it, particularly with the Princess of Wales when it was reassessed, and we just don't feel qualified to speak on behalf of Mr Mirvish or Mr Drabinsky. Their issues are also very important, but then I think they have to come to you directly and identify what solutions would work best for them. As Susan said, we can speak to the community that we're most familiar with and that's the non-profit sector.

Ms Bassett: Of course, but we are looking at it.

Ms Bermonte: I will point out too that both Mr Mirvish and Mr Drabinsky are on record numerous times as identifying that if it were not for the non-profit sector, they could not be doing what they're doing right now. So the infrastructure and the continuum between the two are very, very strong and tight.

Mr Phillips: I think it's a very important presentation. The challenge we face is that the government, as we keep saying, has decided to move extremely quickly on this thing. We're almost finished our Toronto hearings. This is the last day. We've half a day left here. We're going to be travelling for four days next week, one day of what we call clause-by-clause and then the bill's done. The government's pretty proud of itself for all the courage to do these things, although what we're finding is that

there's a fine line between courage and recklessness and it looks like they're more reckless than courageous.

Have you had a chance to look at what they call the draft regulations? I think you must have.

Ms Bermonte: Yes, we have.

Mr Phillips: They do nothing to satisfy — well, actually they make your problem clearer, that you've got a problem.

Ms Bermonte: Yes.

Mr Phillips: Or we have a problem.

Ms Bermonte: Yes.

Mr Phillips: Have you had a chance to discuss the rationale for why they've excluded you? You quite correctly point out the —

Ms Bermonte: Ski hill, golf course.

Mr Phillips: It doesn't mention mini-putt, but you think it may include mini-putt. You think that may be your way around it, with a mini-putt in the lobby.

Ms Bermonte: I guess it's a preference.

Mr Phillips: Have you any idea why they've included the golf course but excluded your organizations?

Mr Pouliot: It's not a 905 location.

Ms Bermonte: I think it's again urban versus rural issues. The arts are very much part of an urban environment. However, I think what I tried to point out in the first half of the presentation is that they're very far-reaching in their effects around economic impact and quality of life.

Mr Phillips: Yes.

Ms Bermonte: I think perhaps that's what we're seeing in the draft regulations. Also, perhaps there are personal preferences around leisure activities reflected in that.

Mr Phillips: I never thought of that.

I think you've outlined, if I might just quickly, what can only be described as a catastrophic impact if changes aren't made in this.

Ms Bermonte: Absolutely.

Mr Phillips: Apart from this discussion here, has your organization had any private talks with the civil servants around the possibility of changing the regulation?

Ms Bermonte: No, we haven't. That's a very good point. We've only really become aware of this issue in the last three weeks. We've also of course been inundated with so many other issues affecting the city of Toronto that our resources are very limited and we find that they are being spread very wide.

Ms Wright: Just to add, we did make presentations to the Crombie panel on this issue specifically.

Mr Phillips: It's important. Thank you.

The Chair: Mr Pouliot, three minutes.

Mr Pouliot: Thank you for your zest and enthusiasm in pointing out a balance, an equilibrium. On the one side those who seem to have a stronger voice — I don't wish to prejudice your presentation, but as you lined them up, it seems that, a priori, if you're big, you have a better chance of getting recognition, but if you are not, if you're more like street culture, your voice is not as organized and you don't seem to have as much clout. That wouldn't be entirely fair, but it seems that way.

I'm encouraged, and I hope you are, that you have struck a positive response. I'm encouraged by the government's sensitivity when it comes to — in some cases, the point makes itself, on the one hand and on the other end. I'm sure that they too, by the tone, are looking to have a better level playing field; that you count too. We're all Ontarians etc and everybody benefits.

I will say no more. You've said it all, and I've heard from both my friend Mr Phillips and the government.

Ms Bermonte: Thank you very much.

The Chair: We thank the Toronto Arts Council for their presentation today. We appreciate it very much.

Ms Bermonte: And Toronto Artscape.

The Chair: There is no further business other than I've had a request for a subcommittee meeting, and I think it's probably a three-minuter. Do we have the time now?

Mr Phillips: We'll make the time. I think it's important.

Ms Bassett: Okay.

The Chair: If so, fine. The committee will stand adjourned then until 2 o'clock this afternoon.

The committee recessed from 1206 to 1400.

FEDERATION OF METRO TENANTS' ASSOCIATIONS

The Chair: We will call the meeting back to order. Again, I appreciate the committee's promptness. We have with us this afternoon the Federation of Metro Tenants' Associations, Mr Tessler. Welcome to the committee, Mr Tessler.

Mr Howard Tessler: I'd like to introduce my chairperson, Barbara Hurd, who is busy getting her glasses. We'll be presenting together.

On behalf of the members and the board of directors of the Federation of Metro Tenants' Associations, I would like to thank the government for allowing us to address these hearings on Bill 106, the Fair Municipal Finance Act. The federation would like to address only one aspect of this new legislation: the proposed changes that will affect the taxation of multiresidential rental housing.

Before we begin, we would like to state that the federation has long supported and advocated reform of a property tax system which saw multiunit residential rental housing assessed at a much higher rate than other forms of residential housing such as owner-occupied condominiums and single-family homes.

We have submitted briefs to numerous government inquiries, including the Fair Tax Commission, the GTA Task Force and the Who Does What panel. The federation has lobbied local municipal councils as well as provincial members of Parliament and the government to alter this unfair system. We have held countless tenant workshops on the subject and have produced popular education material on tenants and taxes.

Since the election of this government, the Minister of Municipal Affairs and Housing has stated that the assessment of residential rental property was unfair and that this government would seek to change this.

It was, however, with great disappointment that we learned of the contents of the Fair Municipal Finance Act on January 16. The federation sees Bill 106 as a betrayal

of tenants. In the very announcement of the act, Mr Ernie Eves talked about the unfairness of the present system in which "thousands of homeowners and businesses are paying more property tax than they should be." He said that property tax for farmers and for woodlot owners would be cut and that conservation lands would be made exempt. The bill would also reduce the red tape and administrative costs for municipalities. Nowhere in his announcement was there a single mention of residential rental tenants. Nowhere was there recognition that Ontario's 3.2 million tenants pay $1.5 billion in property tax each year.

Ms Barbara Hurd: I'm going to speak on how Bill 106 will affect tenants.

When taken on its own, Bill 106 can be seen as tenant-neutral. The major change advocated, the imposition of a province-wide current value assessment system, does not spell out that tenants will pay either higher or lower property tax. As with market value assessment, some multiunit residential rental properties will be assessed at a greater value than in the past, while others will be valued at a lower amount.

Tenants in properties assessed at a greater value will have their rents raised, since property tax is considered by both current and proposed tenant protection legislation as an extraordinary operating cost. These increases are not limited or capped and cannot be challenged by the tenant.

Those multiunit residential rental buildings whose assessed current value is a lower amount will definitely see landlords experience a drop in their operating costs. However, under both the current Rent Control Act and the proposed legislation, this saving will not be automatically passed on to tenants. Tenants under both the present and proposed legislation can apply for a reduction in rent because of this decrease in cost.

However, even if the assessment system does result in lowering the property tax on some multiunit residential rental buildings, tenants will have a difficult time realizing any savings in rent under the new legislation. Section 133 of Bill 96 calls for individual tenants to apply for such a reduction even though the landlord's saving is for the entire building.

Property tax is rolled into the rent tenants pay and is hence invisible. Many municipalities do not inform their tenant residents of the amount of property tax they pay. Aside from this lack of information, the composition of the tenant population is such that many tenants will not be able to use the tribunal process. Many are seniors who will find the application process physically difficult. A large percentage are new Canadians whose lack of English language skills will hinder their application capabilities. Many individual tenants will therefore not apply for the saving they are legally entitled to. It should also be noted that there will be an application fee for any appeal before the tribunal. This will discourage many low-income tenants from applying for savings they are legally entitled to.

The federation would like to suggest that if this government seeks to move in the direction of fairness and justice, amendments be made to both Bill 96 and Bill 106.

Section 133 of Bill 96 should be amended to require the tribunal to join all units in the residential rental complex to an appeal where all rents would be affected by the issues raised in the application.

Bill 106 should be amended in such a way that landlords of multiunit residential rental properties be required to treat their tenants in a manner similar to landlords of business property, who are required under section 51(2.1) to inform each tenant of the amount of tax the tenant is required to pay.

Ideally, the federation would like to see some form of automatic mechanism in which any property tax saving would benefit both landlord and tenant.

Mr Tessler: Bill 106's failure to address unfairness: When Bill 106 was announced on January 16, the Minister of Finance issued a backgrounder stating that the new legislation "will give municipalities the power to ensure that rental properties are taxed at a fair rate." This fair rate would rectify the present assessment system in which homeowners are taxed on 2% of their home's real worth, while multiunit residential buildings are taxed at 10%.

Bill 106 gives municipalities the power to create a special class for new residential rental buildings of seven units or more that would be taxed at a special rate comparable to that of owner-occupied condominiums and single-family homes, but this is for an eight-year period. After this eight-year period, these rental properties would be taxed at the same rate as other residential rental buildings.

The reasoning behind this enabling legislation is that the lowered rates would encourage the construction of new rental supply. It is similar to the previous provincial government's five-year exemption from rent control of new rental housing. Landlords and developers have consistently listed high and unfair property taxes as a major reason for their reluctance or refusal to develop new rental housing. Just as the five-year exemption from rent control under the New Democratic government did not entice the private market to build, an eight-year exemption will also not end their reluctance.

While nothing will be gained, municipalities have much to lose. They will lose important tax revenue that will be essential given the downloading of social services that was announced during mega-week. It is estimated that the net revenue shortfall across Metro will be $483.1 million. The city of Toronto estimates that its taxes will have to rise by 11.7% to pay for the downloaded services.

The federation can only ask: Why would any municipality enact a new property tax that will result in the lowering of revenues at the same time as it is being given new and heavy fiscal responsibilities? Perhaps this is why the class is limited to newly built residential rental buildings and applies only for a limited time. The government realizes that under its proposed division of responsibilities, Who Does What, fairness would be fiscally dangerous for those now responsible for its enactment.

Ms Hurd: Taxes, tenants and the status quo: The government says that Bill 106 will end the regime under which tenants pay more taxes than homeowners while encouraging new rental housing supply. A close examination shows that it will do neither.

Tenants will not benefit by the move to current value assessment even though their landlords may make windfall profits. In fact, when Bill 106 is seen in conjunction with Bill 96, tenants are worse off than they are under the present system. Neither does the new legislation end the invisibility of property tax in residential rental housing. Bill 106 treats commercial tenants far differently than it does residential ones.

Bill 106 places the onus on municipalities to move towards tax fairness while at the same time it has created an environment that will make this move almost impossible.

Will tenants fare better under a new tax regime created by Bill 106 than under the status quo? The Federation of Metro Tenants' Associations wishes it would be so. Unfortunately, the limited changes invoked by Bill 106, coupled with the anti-tenant provisions of Bill 96 and the fiscally crippling downloading, will see tenants pay more taxes through higher rents for less services in a continuing tight housing market.

1410

The Chair: Thank you very much. That leaves us about three and a half minutes per caucus.

Mr Phillips: What has been the rationale for, I gather, landlords not wanting to inform the tenants of the amount of property tax their unit pays?

Mr Tessler: I'm not a landlord and I'm not a mind-reader, but I think one of the reasons is that landlords feel this is their business. Most producers of a good do not feel that the customer has any right to know what their cost of producing that good is. You go into a shoe store, you don't expect to have the manager of the shoe store explain that leather is X number of cents, labour is X number of cents and you pay this. The price is this and my cost is my own cost: I think that's the psychology.

In the hearings on 96 — not 96; it hasn't occurred yet, thank God, but in the hearings on New Directions, landlords were complaining bitterly about any kind of red tape, any kind of regulation they were forced to do. Anything that the government asked them to do was seen as an obstacle. Again, if landlords are told, "You have to inform your tenant of the property tax," they'll say: "It's my business. I don't want to. They have no rights."

Mr Phillips: It seems strange to me.

Mr Tessler: It's bizarre, but there's the same reluctance in many municipalities to inform tenants of the property tax they pay.

Mr Phillips: I can maybe understand that, but I would have thought the landlords would —

Mr Tessler: Would relish it? I don't know.

Mr Phillips: I would have thought, and maybe you're not the right one to be asking the question, but —

Mr Tessler: I believe Philip and FRPO and UDI gave deputations.

Mr Phillips: Yes, they did.

Mr Tessler: You should have asked Philip.

Mr Phillips: Yes, you're right. They're gone.

Mr Tessler: Phil wouldn't tell me.

Mr Phillips: A phone call will get that. So I gather your concern is the combination of the two pieces of legislation. On the one hand, you're losing some protection on rent increases, and on the other hand, in your opinion, this bill does nothing to decrease your property taxes. Is that fair?

Mr Tessler: That's one of the gists of it, yes. The other is that again the government has said time and time again, Mr Leach has stated, that the property tax system now has to be changed so that tenants benefit and landlords benefit. He's stated that time and time again. He says, "We're the people who are going to do it," and he pointed to the tenants' allies and city hall: "Look, they're all against these changes; they're not your real friends. We are your real friends." The government comes out with new legislation that isn't going to really do it, plus the fact that Bill 96 makes it harder for tenants to claim a legitimate reduction. So what we're going to have is that landlords may get a windfall profit but there's not going to be any benefit for tenants.

Mr Pouliot: Madame, Monsieur, welcome. Bill 106, essentially the removal of the business occupancy tax, is an exercise, a compromise, where there are winners and losers. The bank towers are the benefactors. Large hotels will also benefit. Apartment units are supposed to benefit.

The unfortunate part of Bill 106 is that it, by itself — well, it's not by itself; it does not operate in isolation. You have stated in your presentation that the city of Toronto will be subjected to an 11.7% decrease, a sum neighbouring $500 million.

If half of it were true, what it does in the real world of politics is wipe out the phase-in provision, because in a scenario where you must raise the money to pay for the police people, for the people who fight fires etc, you need to meet the payroll. You don't have the flexibility to wait; that's the real world and you're not to get a cheque from government.

I'm not imputing motives because this is not a revenue-neutral policy. This is $2 billion you take away from the marketplace that has to be made up someplace. Either the municipality goes after an opportunity created by different classes of taxes or class of tax, a side show to get back at them, in this case, a tax is a tax is a tax, plus ça change, plus c'est la même chose, nothing has been achieved.

Some landlords will see the opportunity to improve the unit and to pass some of the savings along. If we say they won't, we have to say they will or maybe they will. But when all this is said and done, do you feel that people at the residential level will be paying the same amount of taxes — you have a reassessment coming down also — less taxes or more taxes?

Mr Tessler: What we said in our brief and what we believe is that given the downloading of the services at the same time as the reassessment, the tax burden is going to be increased on all property and therefore tenants will pay more rent.

Mr Pouliot: Exactly.

Mr Tessler: At this stage in the economy, at this stage of the downloading, I think that tenants will be detrimentally affected, as with all segments of society as well; life in Toronto will be adversely affected with the downloading. The unfortunate thing is that other provisions aren't there so that if things improve, even if downloading didn't exist, there's no automatic passing on of the savings. Unfairness is perpetuated so that tenants

who make up such a big percentage of this city and this province will not benefit one iota.

Mr Pouliot: But you see, we're in a catch-22 here. On the one hand, the landlords are saying, "I don't have an opportunity to expand because I'm not making enough money." On the other hand, if your rent goes up, and given the low vacancy rate you cannot meet that demand, you're out on the street.

Mr Tessler: Definitely.

Mr Ford: Mr Tessler, somewhere along the line in your conversation you mentioned that the previous government didn't create any more rental housing. Is that right?

Mr Tessler: No, I didn't say the previous government. I said that in the Rent Control Act of 1992 there was a provision for a five-year exemption from rent control for the construction of new rental housing, and that was to facilitate private developers to go out and build rental housing. Private developers said they didn't do that because it was five years and not forever. The proposed legislation, Bill 96, wipes out rent control on all new privately developed rental properties.

Mr Ford: Yes, some of these builders were supposed to be in a sort of non-profit building mode. It all depends from which view you're taking a look at it. We took at look at it and said it was probably the most profitable housing they've ever built. This was our point of view. As you are well aware, it wasn't supposed to be that way and it ended up that way. Now what we're trying to do is get a compatible housing situation. We still have rent controls on apartments —

Mr Tessler: No.

Mr Ford: You're saying yes and no. What's your opinion?

Mr Tessler: The proposed system of vacancy decontrol will see that it's the back door to the death of rent control. You've met with your constituents —

Mr Ford: Many times.

Mr Tessler: — and they have told you the exact same words I am telling you, sir. If everybody's calling a thing a duck and it looks like duck and it flies like a duck, it's a duck.

Mr Ford: Flies like a duck, it's a duck. Okay. How do we get some breathing space in there for new development in rental housing?

Mr Tessler: This is a very good question. I don't know. I'm not a developer. I would love to see new development.

Mr Ford: We'd love to see that too.

Mr Tessler: I have asked Philip many times, "Where are you going to build affordable housing?" I've said: "Phil, you tell us, we'll publicize it in our journal, we'll make it known. You tell us the spaces, you tell us the rents, we'll help you fill it." And you know something? Phil never answered me back.

The fact is that in every meeting with developers, they have not said where they're going to build rental housing. They have said they will build condominiums, but not rental housing. If Bill 106 is supposed to adjust the property tax so they'll be encouraged to build rental housing, because a huge part of their costs are property tax, this does not do it. You've heard from the developers. We're on the same side. You want to do something, let's sit down and do it rationally. Don't play around and say you're going to encourage development when nobody in the world who builds them or lives in them — says that you're not.

Mr Ford: Property taxes —

The Chair: Thank you very much. We appreciate your presentation to the committee today.

1420

CANADIAN TAXPAYERS FEDERATION

The Chair: The next presenter is the Canadian Taxpayers Federation, Mr Pagnuelo. Welcome to the committee.

Mr Paul Pagnuelo: We welcome the opportunity to comment on Bill 106, which deals with assessment and the levying of property taxes by municipalities.

As part of our submission to the committee, we've prepared what we call A Survival Guide for MPPs on property tax assessment reform. We call it a survival guide because if history has taught us anything it's that tax collecting and tax reform can be a politically dangerous business. Just ask former Prime Minister Brian Mulroney about how voters reacted to the imposition of the GST, or current Prime Minister Jean Chrétien, who was elected on his promise to kill, scrap and abolish the tax, not on a promise of simply replacing it by renaming it the BST, a most fitting title that reflects a broken election promise.

I think you will find our survival guide informative and useful. It deals with what's wrong with the system today, how reassessment has been divisive and a flashpoint with taxpayers across the province — just not here in Metro Toronto — the principles of reform, an assessment of the alternative systems that are available, and the solution, we think, to sensible tax reform.

You'll find in the section on international history that it talks about stories of kings turning people they didn't like into tax collectors with the understanding that they would probably be killed. During the Middle Ages the taxation of property took many unique turns. In Russia, plowed land was taxed, which proved to be a disincentive to work it. Homes were also taxed, but peasants began building duplexes and triplexes to avoid the tax. This resulted in the Russians going to a door tax, which in turn caused the peasants to board up all the doors but one.

Fortunately, Peter the Great, the infamous Russian czar, understood the futility of this tax, as the peasants were spending more time trying to avoid the tax by building and rebuilding homes than increasing productivity. So he scrapped it.

History shows that the battles we're going through over property taxes are far from new.

Finance Minister Ernie Eves says the act will do away with the grossly unfair system we have today. But this is not a debate about rich people paying little in taxes. It's a debate about finding a replacement system for taxing local municipal services that taxpayers will find to be stable, equitable, transparent and efficient. That's what fairness in a tax system is all about.

High-profile members of this government, including Isabel Bassett and Al Leach, have stated in writing in their election material that they would never support the imposition of MVA. A Mike Harris government, we were told, would review all the alternatives to MVA, including unit value assessment, to determine whether an alternative method would offer a more equitable and efficient means of assessing property taxes. Oh well, so much for the election promises and the integrity of a politician's word.

Call it market value, actual value, current value, fair value — it all means the same. Simply renaming it and tinkering with some of the details, like Jean Chrétien has with the GST-BST, is not the reform taxpayers have been looking for.

The question that this government failed to ask and that all Ontarians should be considering is whether it makes sense that property taxes should be based on the market value of a property and the vagaries of the real estate market, or should be based instead on some form of measurement of the amount of local government services each property receives.

This question becomes even more important if property taxes are expected in the future to also pay for social services, such as welfare, housing for seniors etc. We fail to understand how changing real estate values should be the basis for determining how individuals and businesses should be expected to pay for income redistribution programs.

An army of tax collectors has been given its marching orders and the assault on taxpayers we think is going to be massive. In order to make this turkey fly, the provincial assessment division has convinced ministers Eves and Leach that the job can be done without the Harris government being stung in the process.

Despite assurances that it can be delivered on time, on cost and with a high degree of integrity, using its own resources and contract staff, the private sector was also invited to bid on all or part of the project. With millions on the table up for grabs, one would expect private sector firms to have been tripping over themselves for a piece of the action. But surprise: It's our understanding that because the process is so fundamentally flawed and guaranteed to fail, many in the private sector actually shunned the project. They don't want to put their own hard-earned reputations on the line.

In fact, this committee I understand heard earlier this week from Will Presley, a government property tax assessor in North Bay, that the government's timetable will ensure Ontario property taxpayers have the poorest assessment roll that will ever have been returned after a reassessment and that it will come at the highest possible price.

Stanley Hamilton, who served on the Commission of Inquiry on Property Taxation and Assessment and as a director of the BC Assessment Authority, told a conference in Toronto last November that it would take Ontario at least until the year 2000 to get AVA right without messing it up. In his view, rushing into AVA without adequate time for testing brings the risk of generally inaccurate assessments, with harmful results that could last a decade.

As the whole exercise of fixing Ontario's property tax system continues to evolve, it becomes increasingly apparent that the agenda and the whole process for assessment reform were hijacked from the very start by the tax collector bureaucracy. It's clear to us that the assessment bureaucracy has one prime objective. That is to secure its own continuous employment.

Civil servants are well aware of the political risk involved with AVA, but have silenced the alarm bells at Queen's Park. They've convinced our government to unplug the phones and lock the doors.

How else does one explain the fact that there never was a serious examination or consideration of alternative assessment systems, either by the Golden task force or by David Crombie's Who Does What advisory panel? How else does one explain why the findings of Libby Burnham's GTA review panel in respect to assessment reform were ignored? How else does one explain why the views of taxpayers, the people who will pay for the consequences of these decisions, have been completely dismissed? How else does one explain the fact that the Harris government, elected on the basis of a common-sense fiscal platform, has chosen to go with the highest-cost, most labour-intensive and most unstable system, one which will hit implementation gridlock and self-destruct just as Ontario readies itself for the next provincial election?

Is AVA really the wonder drug which will cure the problems with Ontario's property tax system? If so, why then are an increasing number of Ontario taxpayers reluctant to swallow this magical brew? Is it the ingredients, the side-effects, or the lure of perhaps easier-to-swallow remedies?

Under AVA, tax equity is a moving target because it requires annual reassessment. Tax burdens shift as market values move. However, there are one-time-only assessment alternatives where tax equity remains stable, without the need for ongoing tax shifts.

Israel uses a unit assessment system, where the assessment is determined by the physical dimensions of each property. Tax rates per square meter are policy-based, with variations by building type and location.

The UK has adopted a system which assigns residential properties to one of eight bands of 1991 values, with each property in a band paying the same level of tax. Non-residential properties, on the other hand, are not banded, but individually appraised on a renter value basis, with a five-year re-evaluation cycle.

1430

California, which used to be on an AVA system, moved to actual price acquisition in 1978. Assessments were rolled back to 1975 actual values, with a 2% annual inflation factor. Assessments in California are frozen until the property sells, at which time the sale price becomes the new assessed value.

In seeking meaningful reform to the property tax system, Ontario had several assessment models to choose from, and the Harris government has yet to provide a convincing argument as to why it selected the tax collector's dream of AVA and completely ignored proven, one-time-only assessment alternatives. How does AVA, a bureaucracy-driven solution to Ontario's property tax mess, measure up to other alternatives which the government has chosen to ignore?

Under AVA, all properties with the same current market value — Ontario's proposal would average values over a three-year period — have the same assessment. Now, in the UK, the assessment is the same for all properties failing within one of eight bands of 1991 market value. With unit assessment, all properties with the same physical dimensions have the same assessment, while California's APA system ties assessment to the last purchase price of the property. So when we look at all four models, they use very different equity standards, but we'll agree that each of them do meet what they set out to do.

In terms of stability, AVA ranks as the worst of all four systems, because the assessment changes annually in lockstep with fluctuating market values. On the other hand, California's APA guarantees no change in assessment until the property is sold. With UA, the assessment remains stable unless there is an add-on or reduction of the measured area. With the British council tax, stability is as good as the government's promise that properties will not be revalued.

The lowest marks for understanding how assessments are arrived at have got to go to AVA. Figuring out and appealing what your property would be worth if it sold on the open market today is no easy or inexpensive task for most property owners. Sure, the assessment bureaucracy may try to give a satisfactory explanation as to how this year's value for a property was calculated, but by the time the complex formulae and subjective judgements an assessor uses have all been factored in, the average person is likely to go bonkers trying to make sense of it.

The British council tax requires an understanding of how 1991 values were determined in order that the property could be banded, but at least it involves only a one-time effort, rather than an annual mind-boggling exercise. If you can read a tape measure, UA is really straightforward. Next is APA, where although the price you paid is easy to understand, the 2% annual inflation cap could add some complexity to the process.

Finally, there's the issue of cost, both in terms of administering the system and appeals. AVA is, without a doubt, the most expensive of all alternatives because it involves annual reassessment and a huge bureaucratic army to maintain the system. Who in their right mind is going to go through the expense and hassle of appealing their assessment each year? By comparison, unit, actual price acquisition and the British council tax are all low-cost assessment systems and, because of their design, the need for ongoing appeals is virtually non-existent.

When Municipal Affairs Minister Al Leach brought AVA to the cabinet table and finally to caucus, he somehow managed to sell it on the basis of equity, stability, understandability and efficiency. It certainly begs the question if everyone was asleep at the time and if common sense got parked at the front door of the Legislature.

I've got a section in my presentation that deals with consumption, and because of time I'll skip over it, but I'd ask you to look at it because what we're really talking about is consuming municipal services and how you pay for consumption. How do you pay for consumption today in anything else you buy, whether it's electric power from Hydro, whether it's water, whether it's groceries, whether it's rent, what have you? You all pay on the basis of how much you consume. What would your reaction be if Hydro all of a sudden said, "We're not going to charge you any more on the basis of consumption, but we're going to charge you on the market value of your property"?

In seeking meaningful reform to the property tax system, Ontario had several assessment models to choose from, and as we've said, the government has yet to provide a convincing argument as to why it selected the tax collector's dream of AVA and completely ignored proven, one-time only assessment alternatives. AVA simply tinkers with the status quo and, we think, breaks an election promise that certain MPPs did make. Other than fulfilling the dreams of the provincial assessment bureaucracy, we think if you implement AVA it's going to lead to a one-term government that had the potential and the opportunity to make radical but very sensible changes to our property tax system.

The Canadian Taxpayers Federation advocates a municipal services tax system that's comprised of user fees, a parcel or flat tax for certain services and unit assessment for the remainder. But regardless of our view, we strongly believe that the ultimate decision as to which alternative is best for Ontario should be left to those who will have to live with it, and that's the taxpayers of this province. That means letting them choose the system they want, either by a binding referendum or by a general election in which each party would clearly spell out the alternative it would implement if elected.

Rushing in a flawed, failed property tax system that angers taxpayers and that hires more tax collectors when the government is reducing staff elsewhere makes no political or common sense; taking the time to research, develop and implement a made-in-Ontario alternative that taxpayers will support, we believe, does. Thank you.

The Chair: Thank you very much. That leaves us just about a minute per caucus for comments. Could we start with the third party, Mr Pouliot.

Mr Pouliot: Welcome, Mr Pagnuelo. Well, life is made of good news and bad news, and the good always surpasses the bad, but today we have this unusual situation that, with respect, politically you might be left without a friend and the Conservatives find themselves in the same situation. A dilemma indeed.

I see your brief as a repetition of what many people have been saying, that this is too massive. We don't have answers to logical, reasonable questions that people have been asking, "Who will pay for this, and to what extent?" We fail to see a true definition of what the cost will be. I don't see it as a victory or attack their attempt. I think you speak candidly from your point of view.

Since, again, Bill 106 is not in isolation — it is mesh, it is web, it is broad front — people at the municipal level, taxpayers, people like yourself, are asking, "Show me the money; what about the cost?" If you tell me that it is revenue-neutral, cost for me or help me cost the price of new responsibilities. In a mere seven or eight months before its implementation, before it reaches the street, the marketplace, those answers are still not forthcoming.

So my colleague and I find ourselves asking the very same question, offering the very same binding referendum solution, among others, that you are. I don't feel all that comfortable, because I'm sure that if we were to develop the team, maybe one day you and I could find a disagreement, but I find myself supporting and asking the same question as you are. It's a very puzzling feeling for me.

Mr Pagnuelo: I don't know how to respond, other than that there is so much on the table here. Nobody is disagreeing with the need for reform, but I think we should have started this debate by saying, "If we're going to reform the property tax system, then what should be the common basis for assessment?" As I said earlier in my presentation, is that common basis to begin with the value of property, the value of real estate, something that shifts? I sit here and I say, "If nothing changes, if municipal budgets stayed the same, if nobody's houses sold, if everybody was staying in the same place, we were getting the same services, why should my taxes change from one year to the next simply because real estate values changed?" It makes absolutely no sense.

I'm a firm believer that you pay for what you consume, and so is the federation. We're saying that we should be looking, to the best of our ability, for a system that measures consumption. That's how we pay, on the basis of consumption, not some artificial value that's determined by realtors; that just makes absolutely no sense.

When we talk about cost, there are two things; one is, is the thing going to be revenue-neutral across the board, in terms of in a municipality, or are they going to use increased values as a way of also increasing revenues? The other issue, though, which we also want to focus on and not lose sight of in terms of cost, is in administering the system. Today it's about $130 million a year, which is going to get passed down to the municipalities and end up on our tax bills. If what they've done in BC is any example, what we're going to find is that those assessment costs are going to increase, we think, about 67%. So we're finding that the cost of administering this is going to go up, we think as high as $200 million a year. To us, that's a complete dead-weight loss to the economy. Why are we spending $200 million a year, or even if it was only $130 million and nothing changed, simply to administer a system when you can find alternative systems that virtually are cost-free?

1440

The Chair: Thank you. The government side, Ms Bassett.

Ms Bassett: Now, Paul, we've been over this, as you know, endlessly.

Mr Pagnuelo: I know.

Ms Bassett: I won't convince you. We'll agree to disagree. I think that our current value assessment is not MVA, for many reasons. I want to point out that's one of the systems we said we would look at, as we've looked at many systems before arriving at the current value assessment, and we certainly believe that streamlining the system is going to make it fairer for everyone, and it will save money and protect taxpayers. Obviously we wouldn't be doing it if we didn't believe this is the right way to go. Certainly we think it's going to make this system a lot easier to understand.

You said something in passing about how easy it will be to read your taxes with unit assessment. Well, right now the system of reading your taxes and finding out what you're paying is pretty bad. We feel that the new system will not only prevent erosion of the tax base, it will stop it. We're losing $100 million a year in revenues that we can't collect in Metro alone from appeals on outdated assessments. So the old assessment system isn't working. In BC, the most recent report in the Star shows it's only 2% of appeals. We feel initially the appeals will go up, naturally, but then it's going to level off.

You say the cost of the new assessment is going to be a lot. Initially it will be a lot. It will come down and level off. Initially when you rearrange or redo a house, it's a big deal. If we go along on a level playing field, we've got all the new equipment we can benefit from, the technology. There are many pluses in the system we've got. You must agree the present system is totally unfair.

Mr Pagnuelo: We've always said the present system is totally unfair. What we're saying is that there's no relationship between the value of a property and what you're consuming in municipal services, so why are we continuing to look at a system that simply does that? Why are we looking at a system that, we think, is going to be far more expensive in terms of administration? I'm not talking the one-time cost; I'm talking the ongoing, annual cost year after year after year. If we use BC as a model — and that's what you've done with AVA — we're going to find that $130 million a year that we're spending today going up, not going down.

The Chair: I'm glad that you two have agreed to disagree, because we're going to move to the Liberals. Mr Phillips.

Ms Bassett: Till next time.

Mr Phillips: We appreciate your presentation, and I'll just make an observation. Nobody says that change doesn't have to happen. I mean, everybody's there.

Mr Pagnuelo: Everybody's there.

Mr Phillips: That's not debatable. The problem is that we are being asked to, in business terms, sign the contract on this bill and there's only been, I think, one group in here that says the bill is good as it is and should proceed. Everybody else has some significant reservations.

As I say to my business friends, this is a government that says it's going to run government like a business. The problem is, they're giving business a bad name around here because there are significant problems with these things.

Furthermore, they refuse to give the public the information that's required to make a judgement on this bill. They won't give us any impact studies on the most sweeping changes in property tax in history, that will literally change the value of property. There are buildings in Toronto whose value will increase by $30 million to $35 million just when this bill is passed; there's no question of that. But they will not give us the impact studies. If you agree with me, why would you think they're keeping those impact studies from the public?

Mr Pagnuelo: I don't know if they really have them themselves. To be honest with you, if they saw the

impact studies — again, I don't trust the bureaucracies on this. I think the bureaucracies are leading this government to the altar of political sacrifice. They don't give a damn whether this government gets re-elected or not. In fact, they don't want to see this government get re-elected, as far as I can make out. I think they're leading the sheep to slaughter.

I don't think the government has been able to clearly see exactly what the dangers are out there. I can tell you, from years of being involved with municipal ratepayer groups across this province, that every time there's been a reassessment it's got to be the most volatile issue with taxpayers anywhere. You'll find, other than regions that are on automatic four-year updates, that municipalities that have tried it once haven't gone back on their own because they've been burned and stung before. It's not that taxpayers are objecting to a common basis — they're not — but I think more and more people are questioning, "What have real estate values got to do with what I should be paying for the services I'm consuming?"

The Chair: Thank you very much. We appreciate the Canadian Taxpayers Federation's presentation today.

SHERATON CENTRE TORONTO HOTEL

The Chair: We now welcome the Sheraton Centre, Mr David Cocks. Welcome to the committee.

Mr Dave Cocks: Thank you very much, and good afternoon. I'm Dave Cocks, general manager of the 1,400-room Sheraton Centre Toronto Hotel. As a key flagship hotel for Toronto's tourism industry, we host approximately 600,000 guests annually. These guests include business travellers, meeting and convention delegates and the growing leisure market. Our 1.5-million-square-foot hotel complex includes 1,382 guest rooms, 84,000 square feet of function and meeting space, two levels of retail shops and services, five restaurants and lounges, and we proudly employ just under 1,000 persons.

Like other hotels in the city, the Sheraton Centre Toronto has been seriously impacted and hindered by the unequitable level of assessment on our operation. Despite our best efforts to sell and fill the hotel both in the short and long term, our adjusted gross operating profit line has repeatedly been red-flagged at our corporate offices in Boston, Massachusetts. After the taxes are paid, there is no profit left, none whatsoever.

ITT Sheraton is an international hospitality company conducting business in 64 countries around the globe, and throughout North America there are close to 300 ITT Sheraton properties. Regardless of location, the Sheraton Centre Toronto is by far confronted with the highest tax rates. Hotel properties in New York, Chicago, Los Angeles, Boston, Washington and Atlanta, comparable cities to Toronto, all enjoy mill rates substantially less than Toronto. For example, the 1993 taxes per room in Los Angeles were C$1,143, in Atlanta C$1,274, and in Chicago C$4,492. Here in Toronto they were $5,733. I've included that as appendix A at the back.

You have probably heard of the Pannell Kerr Forster report stating that "The excessive levels of realty and business taxation are threatening the economic viability of the hotel industry in Metropolitan Toronto." I am here today to validate this statement, both from a personal perspective and from having witnessed the impact of the assessment at other hotels.

Tax arrears and receiverships have significantly contributed to the ongoing problems of the industry and they have, on an incremental basis, created an artificial lower cost base which has put added strain on rate structures and our average daily rates. In addition, you will probably be surprised to learn that on an industry basis, we have just recently surpassed our 1988 daily room rates. It has been a constant uphill battle for nine years, a battle we do not wish to repeat.

It is my understanding that Bill 106, once passed, will provide hotels with fair property tax treatment and we will be assessed at the same level of assessment as other commercial properties. This is welcome news. After four decades of inequity, we will finally see fair and equitable treatment vis-à-vis our assessment and mill rate. To this end, I thank you for your commitment to equity for the tourism industry.

While I am here today, I would also like to table two other important issues, those being variable tax rates, which are crucial to the success of the legislation, and the provision enabling the minister to create new classes upon request from a municipality.

The proposed legislation contains a clause 2(2)(e) which causes our hotel industry significant problems. Specifically, it would allow the minister, upon request from municipalities, to prescribe new classes of property which could be taxed at a different rate. We urge the government to agree to amend this.

1450

We understand that the intent of this section is to enable the minister to support municipal objectives. However, the industry has been victimized for some 25-plus years by such discriminatory action and cannot agree that allowing for the possibility of such action to occur in the future is in any way in our best interests.

If these future municipal goals and objectives are worthy and in the interests of the public, the presiding government would have no trouble introducing the legislation. The authorizing of such ministerial actions will not guarantee an open process and discussion before such action would be implemented.

Bill 106 is about providing fair and equitable property tax treatment for everyone. We urge you not to provide the means to cancelling this principle in the same bill.

If my hotel and others are to receive the benefits of property tax reform, ie, lower taxes, the establishment of the new variable tax rates is critical to meeting this objective. Finance Minister Ernie Eves recognized in his budget that the hotels in Metropolitan Toronto were disadvantaged by property taxes that were higher than those of the commercial sector and would take action to address the disadvantage.

In addition, there remains a substantial difference in property tax among the various municipalities, and with property tax in downtown Toronto being between $2,200 to $2,800 higher than that of the neighbouring municipalities of Etobicoke, North York and Scarborough, we as downtown properties are presented with a greater chal-

lenge in remaining competitive in the marketplace. For example, 1993 taxes per room in Scarborough were $2,937, $3,125 in North York and $3,480 in Etobicoke, compared to $5,733 in Toronto.

We in the hospitality industry are most concerned that all this could lead to the municipality being able to thwart this commitment by way of their power to set these differing rates. City of Toronto council has been supportive in having hotels being treated fairly and receiving equitable assessment. However, when it comes to residents and property taxes, we, as a business, do not stand a chance. History has clearly demonstrated that business, when placed against residential concerns, cannot depend on the municipal levels of government to ensure it receives fair and equitable treatment, be it property tax or other areas of municipal responsibility.

Therefore, I urge you to ensure that in setting these ranges it is done so that the benefits of property tax reform flow through to us in the form of lower taxes. It cannot be stressed too much: Lower taxes are the key to restoring economic health to our stagnant industry. Property taxes are by far my largest uncontrollable expense. My colleagues share this same burden. We are not seeking special attention or favours and can accept paying our fair share. The revenue available from lower taxes is required to reinvest in our operations and property in order to remain competitive.You have heard about the new trade centre and the summer launch of the newly expanded convention centre. Both of these facilities are brand-new, state-of-the-art centres, and it is imperative, in order for us in the industry to remain competitive in the marketplace, to be able to reinvest in our own facilities.

I would also like to take this opportunity to state our conditional support for the elimination of the business occupancy tax. It was unfair in its application, and given that millions of dollars went uncollected yearly, it seems reasonable to drop it. I fully expect the municipality to require less money, given it will now collect 100% of its assessment. However, I am concerned as to the process a municipality would utilize to recapture this lost revenue.

Currently, hotels pay a 30% rate for this tax. I believe that if a municipality does move to recapture this revenue, it must be done fairly and equitably. Given our past record of subsidization, this should not be the beginning of another form of it.

As with the variable tax rates, I urge the government to ensure that in the likelihood this amount comes back on to the property tax base, municipalities must do it in a fair manner. By this, I mean they should not be able to download it all or the majority of it on a class or a class within a class. It must be applied in a fair and equitable manner across the board. As I have indicated, I do not mind paying my fair share, but after 25 years of subsidization, we've had enough.

I would also like to add endorsement of the three-year rolling average for assessment purposes once the new system becomes fully operational. A blended average will be fairer for all the stakeholders. Assessments based on a particular year can lead to an unrealistic assessment. A three-year blended average should eliminate the spikes and result in a fairer assessment, which will hopefully take into account the business cycle that exists in virtually all hotels.

Before closing, I would like to briefly raise the phase-in provision. We have been waiting for over three decades for fair property tax treatment. Waiting for another eight years to receive the full benefits is very tough, especially with the possibility of the new subclass creation.

In summary, Bill 106 begins the process of providing my hotel and those of my peers with fair property tax treatment. It is unfortunate that we have had to wait for so many years to be treated fairly. We ask that the necessary steps are taken immediately to ensure the fairness this bill will provide us is not thwarted by the variable tax rate process or by allowing new classes to be created by relatively easy means. Thank you.

The Chair: Thank you very much. That leaves us about three minutes per caucus for questions. We'll start with the government side.

Ms Bassett: Thank you for your presentation. It's always interesting to be reminded of the inequities in property tax. Could you go over once more the differences you suffer and what that cost you?

Mr Cocks: Right now, the hotels are assessed just about double what the commercial rate is in downtown Toronto.

Ms Bassett: Why is that?

Mr Cocks: I honestly don't know. I'm a newcomer to Toronto. I've been here about two years now. All I know is that it's been here forever.

Ms Bassett: That's what everyone says, and that you can't change it — until now.

Mr Cocks: We're trying. As I said in my presentation, and I've been with ITT Sheraton 20 years, this is the highest tax rate I have ever experienced as a hotel manager.

Ms Bassett: What impact does that have on your business?

Mr Cocks: It doesn't allow us to reinvest capital dollars into keeping the building up. It doesn't allow us to, say, keep marginal operations within a hotel operational, such as marginal operating restaurants, which employ people.

A classic example for us would be the closure of the Winter Palace on top of the hotel back in 1992 because, with such high taxation rates, it was a marginally performing operation. That restaurant employed upwards of 60 people. There just was not economic room at the time to allow the hotel to continue a marginal operation.

Ms Bassett: I understand that if this measure goes through, hotels will be able to provide much more employment to other people.

Mr Cocks: That is correct.

Ms Bassett: Are there any figures you could put on that, ballpark?

Mr Cocks: For myself, we would seriously be looking at another 10% to 15% employment above and beyond my 1,000 employees now.

Mr Phillips: That's encouraging. I gather the expectation is that you'd do 10% to 15% more business.

Mr Cocks: No, sir. What it implies is that I could take a different approach to being what I would call competi-

tive in my own business. I'll use the Winter Palace restaurant as a perfect example. I would be able to have economic resources available to me now to have startup costs for a new enterprise and a new restaurant to make myself, hopefully, more competitive in a very difficult marketplace.

Mr Phillips: In terms of the expectations of the possible savings if the bill goes through, have you done any calculations? Is it $1,000 a year per room, or what is it?

1500

Mr Cocks: I've heard such different numbers being bandied about that I'm hesitant to put a number on the table because I don't know what the final outcome is going to be. We've heard ranges. I can say that if the hotels were treated the same as commercial properties, I'm looking at millions of dollars a year.

Mr Phillips: That's right. You're a big 1,400-room hotel.

We have conflicting concerns. Your industry is concerned. By the way, many, many business organizations, virtually every business organization except I think the Ontario Chamber of Commerce, has said, "Do not permit within the bill the establishment of more classes of property," because, I gather, of concern by your industry that that leaves the door open for a return to what you've been concerned about. I realize it's kind of a detail of the bill, but how strongly does your organization feel about the risk of municipalities prescribing new classes of property?

Mr Cocks: I'd have to answer that what we are seeking is fair treatment. We're not in government or in the business to please people. We're in the business of hosting people graciously. All we want is a fairness compared to other commercial properties or other industries. We just don't feel hotels being singled out and paying double the rate, which is currently happening, is fair. I think the result, the economic impact on the hotels, especially in recent years when business was bad, has shown its toll.

Mr Pouliot: Thank you most kindly, and welcome. Personally on account of lack of information and through other approaches, I don't agree with what is being done with respect to the government in terms of the introduction at this time of yet one more bill, but if I were the government, I think I would be sympathetic to your alternative of a three-year blended average as opposed to the "continuous" — I shouldn't say "quote"; you didn't say this — assessment practice which, by your tone, would entail that you hinder stability to some extent, that you could have the flexibility with a three-year blended average, it's better managed and it doesn't subject one to the same acute fluctuations.

Subsection 2(2), as mentioned in your presentation, gives the ability upon request to a municipal government to create another class of taxes. Hypothetically, what you gain by the elimination of the BOT could be in part or in whole jeopardized by another levy. I mean, a tax is a tax is a tax, and in your worst-case scenario you wouldn't be further ahead, and that presents a problématique for you. It's a question that you feel must be answered so that if you get a tax cut, you'll be able to really get a tax cut.

There are two words, among others, but since I came here 12 years ago, if I was to keep track of repetition, and all in a good cause, the first one is, "Our situation is unique," and the second word or phrase would be, "I don't mind paying my fair share." The municipality will have to take the money someplace. They'll have to make up the slack for those winners and losers, if you wish. In the world of politics, if there is one of you at the Sheraton and to make up for the difference there are 500 residential taxpayers, which way do you feel the balance will go, strictly from a political point of view?

Mr Cocks: As I stated in my presentation, business never wins at the expense of residents. But I would like to remind everyone of the significant impact that tourism has on Ontario and Canada and that the tourism industry is a massive employer.

The Chair: We thank the Sheraton Centre for making their presentation to us today. Thank you very much, Mr Cocks.

ONTARIO AND TORONTO AUTOMOBILE DEALERS ASSOCIATION

The Chair: We now welcome the Ontario and Toronto Automobile Dealers Association, Mr Bill Davis. Thank you very much for joining us today, Mr Davis.

Mr Bill Davis: Ladies and gentlemen, as the director of government relations for the Ontario and Toronto Automobile Dealers Association, I am pleased to have this opportunity to share with the committee some of the concerns our members have with respect to Bill 106.

The OA/TADA represents approximately 1,000 new car franchise dealers that employ about 54,000 highly trained professionals and technicians. These individuals not only make a significant contribution to the economic wellbeing of this province, but on a microlevel contribute to the life and vitality of the communities they serve.

The automobile industry is just emerging from the cocoon of the recession and sales are increasing. However, a spirit of pessimism still shrouds our industry and will continue to do so until we experience several additional months of increases. Only then can we as an industry feel that the recession is truly behind us.

Thus, when external changes, such as those contained in Bill 106, are presented, changes that a dealer has no control over, profitability is impacted and resultant costs are absorbed through increased vehicle prices. Industry recovery slows down.

Our association applauds the government's initiative, conviction and courage in undertaking the necessary but difficult task of reforming property tax assessments so they are fair, just and equitable for all Ontarians. While we support the reform, we must ask this government to ensure that these changes are indeed fair, just and equitable to all parties. To that end, the legislation and its attendant regulations must ensure that the municipal powers to place higher taxes and fees for service on the backs of fragile business communities is held in check.

During the MVA debates, the Ontario and Toronto automobile dealers strongly encouraged the provincial and municipal governments of the day to determine what the effects of MVA on Metro's commercial and industrial

sectors might be through an economic impact study. We certainly hope the present government has initiated similar economic studies and is fully apprised of the impact the new assessment reforms will have on the business community. In fact, if these studies were available to the business community, we could better determine the impact the proposed reforms would have on our members and present a more comprehensive report to the standing committee.

Without question, there is fear out there because of so many unknown factors connected with the reforms, fear that these changes could result in a marked increase in property tax of the same magnitude as MVA, fear that such increases, as the MVA debates indicated, could result in the closing of local businesses, rising unemployment and a mass exodus of businesses from the downtown core.

In the MVA debates, members of our association in the Metro area faced property tax increases that varied from 90% to 396%. Some of the dealerships facing those unimaginable tax increases would have had to close their doors and scatter their employees to the faceless lines of the unemployed. Unlike other enterprises, a dealership cannot simply pack up its inventory and move to a new location, as a manufacturer has allocated them a certain area in which to operate.

Bill 106 contains sections that, in our opinion, would provide municipal councils with an easy solution of downloading the lion's share of tax increases on to Ontario's commercial and industrial sectors. This bill grants municipalities the right to levy different tax rates against different classes of property.

1510

In its present form, the bill establishes a scenario in which a municipality could attach a tax rate to dealerships that is different from that of a small used car lot or a Speedy Muffler operation because dealerships are a recognizable and unique class of property. The determining factor in the classification of property could be as simple as the financial ability of the business to pay the new tax rates. Conversely, one can envision a patchwork of different tax rates for dealerships from municipality to municipality, depending upon the whims of the local council or municipalities in establishing a class of property. It's imperative, therefore, that the legislation limits the freedom of the municipalities in determining the classes of property and that the classification system is tied to some provincial standard.

Our members also have a concern with section 12(3) of the proposed legislation, which appears to grant municipalities the authority to assess non-residential properties at the best or highest use of the land while the buildings would be assessed at the current use. If our interpretation is correct, then the business and industrial lands will indeed be assessed on a basis similar to the old MVA proposals. For the new property tax system to be equitable, fair and just, the assessment of all lands should be based on current value.

We are supportive of the proposals to eliminate the business assessment. However, the reality is that no municipality can afford to lose this revenue, so it will simply increase the property tax of businesses to recoup the lost revenues. The concern is that since there is no correlation of this tax to a percentage of the property tax, the municipality can increase this portion of the new tax base to what ever degree it wishes. In fact, there exists a distinct possibility that municipalities could assess this lost revenue in a disproportionate manner to the business community.

I've attempted today to highlight some of our concerns with Bill 106. The bottom line is that any property tax reform must be fair, just and equitable for all stakeholders, be they residential, commercial or industrial.

Mr Chair, I'd be pleased to answer any questions from the committee if they have them.

The Chair: Thank you very much. We have about three minutes per caucus, and we start with the Liberal caucus.

Mr Phillips: One of our problems with the bill is that we were unable to get any impact studies from the province, and I think everybody knows why. If they release them, there will be a firestorm, because we know there are going to be some severe dislocations, and so in a strange way democracy has chosen to hide from the people it serves the information they need to make a judgement because they know a lot of them are not going to be very happy.

That puts us in a bit of a tough spot, frankly, in the opposition at least, because we've got to approve this bill. We've got four more days of hearings. We then have one day of clause-by-clause and then it's over, it's finished. The bill will be approved within six weeks or so. So I share some of your concerns. I think if your members saw the impact, which I believe the government has, you wouldn't be here by yourself; you'd have them there.

Maybe the government thinks it's smart politics. Maybe they figure it's easy to face the firestorm a year from now when it happens and blame it on the municipalities. I think that's what they're hoping. I'm sounding a bit political here, but I think they hope they'll pass the bill and they can then blame the local councils and they'll say, "Well, you go see the mayor because the mayor's doing this to you."

By the way, you make a very good point that needs clarification on the two values of the current use and the future use. I can assure you we'll take a good look at that.

Mr Davis: Thank you.

Mr Phillips: Has your organization made any judgements on what could happen to property taxes on your organization?

Mr Davis: No, we haven't, Gerry, other than because there's some information that's lacking, unlike the MVA debates where we were able to access the information and were able to sit down specifically with the Metro dealers and look at the impact; we just haven't been able to do that. So we did a cursory review of the proposed legislation and found some areas that have some concerns for the business community and our members. If the information was available, we would have been able to give a more comprehensive report and know exactly what the impact was.

The problem with our industry is unique in that some of our members employ over 100 people, and if the taxes are sufficient and they can't generate those sales to offset those costs and they close, those people are unemployed.

You just can't move into another place. That's the concern we had with the bill.

Mr Pouliot: Our former colleague, how are you?

Mr Davis: Fine, thank you.

Mr Pouliot: Very well. Thank you for taking the time and your ongoing interest with the people that you represent so well.

It's not very complex; you need not be a cynic. The federal government says, "Okay, regardless of stripes," — it doesn't apply, doesn't matter, really — "you will get $2.5 billion to $3 billion less." The government takes over, looks at the books and there's approximately an $11-billion deficit. But they made all kinds of promises and they're going to do what they said they would, and one of those is a $5.4-billion ticket, the tax cut in four instalments.

It's no big deal overall, but when it's compressed into one term or less, you have to find the money someplace. You know you're going to spend the same money on health because of the aging population; you can only cut so much, people will know that. You've made a commitment in teachers' classrooms. That's where the money is, those two. In general assistance, some money, but not as much as the first two.

So this is the secret here: You download or you pass the responsibility to the municipality. In your case, here's what happens. Whatever the benefits are — and you get a tradeoff at the residential level; you no longer pay for education, but you pay for other services — in your case, get ready, because they shoot to kill. You're caught. You're going to keep paying for education, and whatever shortfall there is at the residential level, you're going to have to make that up. That is the reality of the day. There's no escaping it.

What we're trying to find out with the opposition is, what kind of methodology are they employing? What are the formulas? Will we have time to come up with some alternatives, because it's not Bill 106, it's the webbing and the meshing of the Common Sense Revolution that's advancing on so many fronts. This is only one component, and it's not in isolation. You see what's happening with Bill 103. You will see what will happen next week with Bill 104.

Mr Davis: I'm just glad I'm not there.

Mr Pouliot: The parade is the parade is the parade. You're one of them, with respect, but those people will eat their young, Bill. Be careful.

I thank you for your representation. I hope I could say there is a message of hope and so on. Unless they put the breaks on — you know, there's light at the end of the tunnel: It's those people with a freight train. You don't have a chance here, just pay and pay and pay some more with those people.

Mr Davis: Gilles, you're as eloquent as always.

The Chair: I didn't hear a question there, so perhaps we'll move to the government side.

Mr Rollins: Thanks, Bill, for coming in today with your thoughts. No, I'm not a car dealer, but I've been in the service station business and repair business for 30 years, so I have some idea what moving about is concerning, because I've been at one location for that length of time.

Do you feel that it's a good idea to remove the BOT?

Mr Davis: I think it is as long as it's distributed equitably back into the business community, and I think the residential community has to take a look at that as well. I think as this bill progresses there really has to be a meshing down the road of municipal and provincial members to look at how we do those tax structures.

I think this is the beginning of the whole reform of tax structures, but our concern is, because you're a local politician and you're responsible to the local people, it's a lot easier to transfer those additional costs to the business community because we have one vote. That's really what the reality is.

Mr Rollins: In fairness, you have one vote, per se, as the owner, but with the number of people you have employed and working there, you have a lot more than one vote.

Mr Davis: The unions can't get all their people to vote for one political party, and I doubt we can get all our people to do that.

Mr Rollins: I know, I realize that. But I think there has to be a fairness in the levelling of the load we have to carry. When you look at the most use for that land tax and then for the building, is there a better way that you could think of doing it?

Mr Davis: As I read the bill, it said it would be, for residential, on the actual value of the land. I don't know if you do buildings or not. But as I read it, it looks like for business and industrial if there are buildings on it, it's going to be actual value; if there's land as well, which there would be, then it's going to be what I would call market value or the best use. That's what they did in the MVA, and that drove the tax increases — I mean, they just went out of sight.

1520

In the Metro area, 66 of our dealers saw increases and about half of them saw increases that were over $50,000 and some were up to $200,000 and $300,000. That is just unrealistic. I think you really need to look at that. If that's what you mean in the bill, then what the municipalities will do is tax the land at its best value.

A prime example is a dealership up in the middle of Toronto. It sits on a piece of property that's worth a lot of money. If I were the assessors for what will be the megacity, I'd say that would have a better use as a commercial building, office building or high-rise apartment, and so I would tax them.

If you look at New York, I understand there are not a lot dealerships in the centre of New York because they were taxed out of business. That's the reality of that particular section that we're really concerned about.

The Chair: Thank you very much, and we appreciate the automobile dealers' association's presentation today. It's always a pleasure to welcome a former member of the House.

Mr Davis: Thank you. I'm just glad I'm not there.

BARBARA HALL

The Chair: We now have the pleasure of welcoming Her Worship Mayor Barbara Hall from the city of Toronto. Your worship, we have 20 minutes to spend together. If you'd like to make a presentation, we can fill any remaining time with questions.

Ms Barbara Hall: Thank you, Mr Chair. It's a pleasure to be here again. This is the second time this week I've appeared before a provincial committee considering legislation which directly affects the city of Toronto and, for that matter, every municipality in Ontario. That's not surprising when you consider some of the current provincial interventions in the municipal sphere: Bill 103 and amalgamation; Bill 104, the education changes; Bill 84, firefighters' regulations; and Bill 106, the legislation before this committee which proposes changes in the area of property tax.

All of these bills will impose far-reaching and, in some cases I believe, drastic changes on much of Ontario and particularly on Metropolitan Toronto. The storm of legislation pounding Toronto threatens to wash away the carefully planned attributes which have made it the best place in which to live and work.

I have several specific concerns with this bill, but my central message to this committee today is that you need to consider this bill in the broader context of the massive changes being proposed by this government. Change breeds uncertainty and occasionally chaos. Those are forces which our citizens don't want to see unleashed in Toronto. There's too much at stake in the way of jobs, investment and quality of life.

Currently, the city of Toronto has a patchwork of property assessments. Some residential assessments date back as far as the 1940s. Multiresidential assessments are almost four times that of single-family residential assessments. Property assessments on businesses vary greatly with a business occupancy tax that dates back to the turn of the century.

The system is antiquated. Few people would question the need for change. Examples abound of assessment discrepancies between houses of similar value on the same street. I know, for example, that there are many inequities on my own street in Cabbagetown.

But just as it has taken decades to get to where we are today, reform, however well intentioned, needs to be phased in over time. Reform must ensure equity, but it must also provide certainty for taxpayers.

Just consider the magnitude of the challenge involved in changing the assessment system in Metro Toronto. The new system is supposed to take effect January 1, 1998, a mere eight months from now.

Meanwhile, the Ministry of Finance is in a race against time, frantically working to reassess 3.8 million properties containing some 5.6 million assessable units. These same reassessments are to be delivered to municipalities no later than April 30, 1998.

In the city of Toronto alone there are over 152,000 properties to be reviewed and more than $1.8 billion of property tax revenue at stake. It's clear that 1998 will be a year of tax volatility. In fact, it will more than likely turn into a year of tax revolt.

Consider the factors in Metro that will destabilize the property taxes paid by all of our citizens, be they homeowners, tenants or business owners. Tax changes can be expected from several directions: through the reassessment of all properties; through future change to existing tax rates; via the $531-million added cost of the proposed downloading of provincial programs; in the method by which the province plans to tax business owners for education; because of pressure on municipal revenues from current property tax appeals; or to pay the hundreds of millions of dollars in transition costs from the forced amalgamation of the Metro municipalities.

Added to this volatility is the fact that the Fair Municipal Finance Act is really an attempt to reintroduce market value assessment under a new name. The government insists there are differences between the proposed current value assessment and market value assessment. But a closer look suggests otherwise.

The government claims that Bill 106 allows seniors to defer taxes. Seniors have for years been able to obtain reverse mortgages on their homes, if they have enough equity, to pay taxes or for any other purposes. Bill 106 merely adds municipalities to the list of private lenders. There's no gain here for seniors.

Bill 106 reduces volatility by averaging the values from three years. Under the timetable within the bill, three-year averaging doesn't begin until 2006, but the existing Ontario MVA does feature three-year averaging. So Bill 106 would temporarily remove averaging that already exists.

Bill 106 offers phase-in periods of up to eight years. Metro offered an even longer transition with its 1992 MVA plan. It was left open-ended as to when transition would be completed.

This is simply MVA all over again, with the government offering little real protection for property taxpayers. In fact, as I've said, some existing protection is being removed.

The instability of market value assessment during a time of rising property values is well known. Similarly, the use of a market value approach is devastating to properties vulnerable to speculation. This scenario is too dangerous to the economic health of our city to be acceptable.

Where is the information on these issues? Where are the impact studies? Where are the reports proving a transition of this magnitude can be properly managed? Regrettably, the provincial government can't answer these questions. That too is unacceptable to the citizens of Toronto.

Months ago, the city asked the provincial government for any impact studies of market value assessment on our neighbourhoods and individual properties. To date, we've been stonewalled. More recently, we were advised by the Minister of Finance that the studies would reveal the substance of the deliberations of cabinet which took place in March 1996 and were therefore not to be made public.

The government's refusal to be candid with the taxpayers of Ontario is simply outrageous. The only information available lacks the detail needed to craft a sound tax policy. We need neighbourhood-by-neighbourhood figures, which this government refuses to release.

1530

Recently, the Information and Privacy Commissioner ordered the finance ministry to obtain the Premier's consent for the release of the impact studies. Rather than obeying the order, the finance ministry has challenged the commissioner's authority. I call on the Premier today to end the secrecy and give the taxpayers the facts.

How bad is the impact of reassessment on the taxpayers and neighbourhoods of the city of Toronto? What is the ministry trying to hide?

How are we to plan and work with our citizens in an environment of secrecy? How does such an approach provide certainty to property taxpayers?

The reckless and hasty transition to the new system will be anything but smooth. Property taxpayers in droves are certain to appeal their new assessments. Initial estimates from the chair of the Assessment Review Board suggest that some 600,000 appeals will be filed province-wide in 1998 alone. But coupled with other pressures on taxpayers and the uncertainty of implementation, the appeal numbers are likely to rise far higher.

What measures will be in place to manage such a problem? What is the likely success of these appeals and the implication for municipal revenues? Nobody seems to know. Are these concerns unfounded? Not when you look at what happened in Winnipeg when reassessment was introduced in 1987 in a haphazard and rushed manner.

A 1996 inquiry into the 10-year property tax fiasco there describes a system quickly and completely overwhelmed by appeals. Of even greater concern for those worried about stable municipal finances is the fact that the level of refunds was grossly underestimated.

The inquiry's report said this about appeals: "While prior to 1987, annual appeals numbered at most in the hundreds, the new era produced thousands of applications for revisions. Between 1987 and 1989, approximately 22,600 appeals were filed by taxpayers. The board of revision was still dealing with many of these appeals when, in 1990, it received 12,230 more. Between 1990 and 1993, approximately 34,000 appeals were filed by property owners."

The inquiry also found that many of the appeals ended with huge refunds for high-dollar commercial properties. Winnipeg had underestimated its exposure in this area by $54.5 million as of February 1996. Imagine the number of appeals in Metro and across the province if this goes ahead.

As well, the proposed legislation appears to leave local governments at financial risk on existing tax appeals. It prevents municipalities from recovering the school board portion of tax losses on successful appeals not processed by December 31, 1997.

In the city of Toronto alone there are over 90,000 outstanding assessment appeals. Our forecasts suggest a revenue shortfall of $117 million on the education appeals alone. Municipalities and their citizens expect any property tax changes to be revenue-neutral at the very least. Instead, Bill 106 places an additional tax burden on taxpayers.

On March 21, I wrote to the Minister of Finance outlining my concerns in this area. I'm still waiting for a reply.

How will local concerns be protected under the new legislation? The Fair Municipal Finance Act provides significant discretion to local governments in the phase-in of property tax changes and the ability to tax property classes at different rates.

In the hands of experienced municipal staff and a municipal council familiar with the needs of its citizens, these may be welcome tax policy instruments, but with the data hidden away in the finance ministry, we have no way of knowing. In any case, the proposal to amalgamate Metro Toronto and to transfer taxation powers to a new megacity severely dilutes the effectiveness of these new tax policy instruments.

Furthermore, taxpayers have no way of making their concerns heard by a level of government they have rejected and that has yet to be created. Under these conditions it is difficult for the public to have confidence in the new system.

Where do the changes leave the business community? Certainly the removal of the business occupancy tax, as recommended by David Crombie, is a long-overdue reform. The tax is outdated, is applied without rationale, is difficult to collect and requires additional spending to administer. But cancelling it is one thing; how to replace the lost revenue is quite another.

In Metropolitan Toronto alone, $653 million is collected annually through the business occupancy tax. This is a substantial amount, representing 14.5% of all property taxes collected in Metro. Yet to be determined is how these funds will be collected under the new system and who will shoulder the burden. Where will the changes leave our local neighbourhood retailers, our corner stores and family-run small businesses?

What about the arts and culture industries, which are important players in Ontario's economy? They are particularly vulnerable to the negative impact of higher assessments. While the proposed regulations address the needs of golf courses and ski resorts, they are silent when it comes to non-profit cultural properties.

These are just a few of the critical questions facing our city and its citizens, but they remain unanswered.

Bill 106 and all the other pressures on local property taxes combine to produce a dangerously volatile situation. Forced amalgamation and the downloading of provincial programs, mixed with property tax reform, is a rising tide which threatens to swamp the economic engine of Ontario.

Taxpayers deserve answers to their questions. To have proceeded this far without addressing these concerns has been a mistake this government will regret. I urge you to step back and take into consideration the potential for chaos embodied in Bill 106.

The Chair: Thank you, your worship. We have about three minutes left, which would leave one minute per caucus for a comment or a very brief question.

Ms Bassett: Thanks for your presentation, your worship. You made many points, and of course we like to hear input. That's why you're here; that's why we're here.

I want to pick up on your comment about the lack of figures in terms of the assessment and point out to you that a sufficient sample of assessment data is going to be made available this summer for municipalities and more information will be made available to municipalities in the fall. As you know, we are reassessing, so anything we gave you would not be up to date. We are waiting for the opportune time to give it.

The province, as you also probably know, is investing $60 million to obtain up-to-date assessment data, and we

will be making them available as soon as we can obtain it all ourselves. Then we also will be assisting municipalities in interpreting these data, because they could be putting tax policy measures in place, and we'll help them to do so. That's just our statement on that. There is a very good reason. We wouldn't want you to be basing your work on things that were inaccurate.

1540

Mr Phillips: So the bill gets passed and then we'll finally find out its implications.

I agree with you totally, Mayor Hall. I don't think people understand how delicate the city of Toronto is. It's like a sensitive ecosystem. I used to be chairman of the Metro school board and I insisted that our offices be in the Toronto school board, because I thought it important for suburban trustees to come down and understand the needs of the downtown. I don't think you overstate the damage that can be done to this sensitive urban ecosystem. It's a unique urban environment, working mainly because of people, thousands of people who are contributing on a daily basis to their community. There's an old saying that Ontario keeps Canada together because Canada likes to hate Ontario, and Ontario is kept together because people like to not like the city of Toronto.

Ms Hall: I used to live somewhere else. I know what you mean.

Mr Phillips: I really don't think you're exaggerating. But I don't know how to stop this bill. It will be passed. We can't get the information, and that's deliberate. I think they know that if they provided the information, there would be a firestorm. As Ms Bassett said, "The information will be available in the summer or the fall." At that point, the bill is law, it's gone, it's done, and it prescribes how you have to handle things, that you've got to deal with taxes in a certain way. You'll know how bad it is, but you just won't be able to change it.

I despair of the combination of things, as you point out, and the education bill will have the same impact in Metro Toronto, I can assure you. The reason that communities in the city of Toronto have been strong is because nobody had to worry about the quality of education in their local schools.

Mr Pouliot: Thank you again for your time, your worship. This sounds like the next Bre-X annual meeting. There are a lot of questions but very few answers.

I want you to help me. I live so far away from Toronto and I find it terribly sophisticated, urban, diversified. It's quite a challenge. Suppose for a moment — and I need your help, your worship — that I live in the city of Toronto and I just moved in December 31. I get my interim tax levy, which is based 50% on this year's taxation. I'm also aware that throughout the province, your fiscal year starts on January 1 and the provincial fiscal year starts on April 1. Having read the dailies, I'm also very much aware that assessment of all those units, the largest endeavour in North America, is about to unravel on April 1. I'm also aware of government legislation stating that you have new responsibilities. I'm aware of your campaigning because I checked things before I moved in, and it was right in the middle of November, the last days of your political campaign. You were trying to cost that.

When all is said and done, you're the victim here. You're the target. You have to find half a billion dollars. You don't even know what you'll be responsible for. You don't even know how much those services will cost. You don't know — how can you? — the results of the assessment. When you don't know, your citizens, those whom you represent, begin to circulate rumours, and they take on extraordinary proportions. Anxiety leads to fear.

We're asking the same questions. They're embarking on a revolution of unprecedented proportions. The trick here — what about stability? What about knowing step by step when you slow things down?

There are two kinds of politicians the modern-day citizen will not tolerate: One is a politician who doesn't attempt to do what he said he would. The other one, in view of changing circumstances, is a politician who will do exactly what he said he would regardless of circumstances. In there, there's equilibrium and a balance.

Thank you very much. You carry a lot of foresight. People are not for or against, because people don't know, but all this happening all at once disturbs my stability. I can only digest and assimilate so much, but if you give me too much I get a little confused. Are you going to run again?

The Chair: Thank you very much. Is that a speculative question? Mayor, you may have a few minutes, if you wish.

Ms Hall: I mentioned at the beginning that I've been here earlier this week. As mayor of the largest city in this province I would love to come here to sit down together and work in partnership on issues of change. We live in a time of change. Everyone in government has great challenges ahead, and certainly on a whole range of issues, including tax reform, I have advocated change for many years.

My sadness is that, for example, the impact information is not being given to us so that we could sit down together with you and figure out ways to solve the problems in a way that will be healthy for the community. I would love to be here sitting down together and finding answers to problems as opposed to feeling that I must come here and just be critical.

The Chair: Thank you very much. We appreciate your taking that time to come to us today.

KAY GARDNER

HOWARD JOY

The Chair: We now welcome Councillor Kay Gardner from ward 15 in the city of Toronto. Welcome to the standing committee on finance and economic affairs.

Ms Kay Gardner: Thank you very much. I would like to introduce Councillor Howard Joy from ward 14, a part of our north Toronto group of councillors who are opposed to MVA, AVA or whatever else you wish to call it. We're going to share our time.

Mr Chairman and members of the committee, for five years in a row now, from 1993 to 1997, the city of Toronto has not increased its share of the property tax, but the government of Ontario appears to be hell-bent on destroying that winning streak in 1998.

The mayor and councillors have been advised that Bill 106, the MVA bill, would cause an estimated average

property tax increase of 19.7% on single-family homes and duplexes in city of Toronto. Twice before, the city of Toronto defeated Metro's attempts to impose massive MVA tax increases on homeowners, tenants and merchants. Each time protests by Toronto taxpayers led the Liberal and NDP governments to refuse to implement Metro's flawed tax scheme.

Some of you will recall that the last time, retail merchants took to the street, staging protest marches on Yonge, Eglinton West, the Danforth and many other major streets in the city of Toronto. Does the committee think for one moment that shop owners and homeowners will not be enraged by this revival of MVA? Members of the government should be aware that an overwhelming majority of city of Toronto taxpayers, in fact 78%, formally rejected MVA in a referendum conducted during the 1991 municipal election.

1550

When Metro first proposed the implementation of MVA in the 1980s, the Liberal government made public an impact study that told precisely the change in taxes that would result on each and every property. But the present government refuses to release an impact study. Why? Why this coverup? Even our application under the freedom of information act for the release of the study has been refused because, we are told, it is a cabinet document. Don't the people of this city and this province have a right to know what kinds of tax increases they're going to be asked to pay?

We can safely predict that the largest and most widespread property tax increases will strike hardest in ward 15, which I represent, and in ward 16. That was the effect of the first two MVA proposals which were eventually rejected by the Liberal and NDP governments. In ward 15, 76% of all property taxpayers were faced with MVA increase, some of more than 100%.

I'm quite aware that Bill 106 does not once mention MVA but instead uses the term "current value." Every informed person knows that "current value" is the same as "market value," and "market value" is a dirty word in this city. Enactment of this bill will provoke a wave of public anger in my ward and elsewhere in the city of Toronto.

As you are aware, Globe and Mail columnist John Barber has twice said the name has been changed so as to camouflage Mr Leach's election promise. Indeed, Mr Leach first called his plan AVA, actual value assessment, but that sounded too much like MVA, so now Bill 106 refers only to "current value."

I wish to touch very briefly upon a subject first raised at your Tuesday hearing, and that is the written 1995 election promise of Isabel Bassett, a member of this committee and my MPP. She said: "The policy of the PC Party has always been that we will never impose market value assessment on Toronto. We remain firm in that position" — but obviously not very firm. Ms Bassett says she has changed her mind for the common good. Why didn't Sheila Copps think of that?

In my ward there are many homeowners, tenants and merchants who are also constituents of Ms Bassett. I wish to assure this committee and Ms Bassett that MVA is rejected more resoundingly in my ward and ward 16 than anywhere else in the city of Toronto. My constituents have always said, "No way MVA." They do not see MVA being for the common good or fair. Now they'll say "No way CVA," and you can be sure of that. I respectfully appeal to Ms Bassett to do the honourable thing and keep her promise by voting against Bill 106. The only other way out, in my view, is for her to resign and seek redemption in a Copps-style by-election.

Of course it is the duty of every member of the Legislature to keep his or her election promises, but it is incumbent on cabinet ministers to set an example in this regard. You will recall that the Honourable Al Leach, one of the two architects of this bill, published an election flyer in 1995 which said, "My party and I will never support the imposition of MVA on Metro Toronto," and I have here copies of both Ms Bassett's and Mr Leach's promises to the citizens of the city of Toronto.

Let us not forget that MVA increases will be on top of any provincial downloading on to the six municipalities because of amalgamation, the other "fair" thing that is being done. The original downloading plan would have increased taxes by 10% on average across Metro.

There is a legion of taxpayers in my ward, among them especially the elderly; half of my ward are elderly and tenants — who are truly afraid of the spectre of any tax increase. During my two previous campaigns against MVA, many elderly women wrote and phoned me tearfully about the prospect of losing their homes. I implore you to recommend to the Premier that the government withdraw this unfair and clearly destructive bill. Thank you very much for allowing me to speak to you today.

Mr Howard Joy: The current exercise of reassessment of property values has upset your provincial staff tremendously. They cannot possibly cope with what normally takes four years to do in 18 months. The private sector refused to even consider doing it in 18 months. A Vancouver expert in AVA told the provincial government not to try to reassess four million properties, the largest reassessment project in North American history, in less than three years, but the government has insisted that it will be done in the 18 months' time that it has allotted.

Be prepared for a deluge of property appeals as this will be the poorest-quality reassessment ever done in Ontario. Appeals cost money and undoubtedly will make this the most expensive reassessment of all time. Even when done properly, MVA or AVA or current value is an expensive system. Being a subjective calculation, there are always appeals, and appeals cost money and result in lost tax revenue. Based on the Winnipeg experience, it has been calculated that this first go-round could well cost Ontario taxpayers $800 million. Ontario taxpayers cannot afford that, nor can they afford any system so prone to appeal court challenges.

There are alternatives. California, Israel and the UK have systems that are well supported by the taxpayers. Why do we have to have the most expensive system in the world, a system that taxpayers can ill afford, that they cannot understand and therefore must appeal, that is subject to huge fluctuations and that they have overwhelmingly voted against in referenda? The province gives lip-service to local option as long as the system itself is not an option.

It is a system that we don't like. It is objectively unfair, unpredictable, expensive to administer and subject to erosion through appeals. We urge you to look at alternatives as noted in California, Israel and the UK.

Your government will tell the regions how much property tax they have to deliver. It should be the municipalities' option which system best suits their taxpayers, especially when the taxpayers will be paying for all the intrinsic cost, and especially, as our taxpayers have said, when they do not like market value assessment.

This provincial government does not have a good track record for following expert advice. They have ignored Anne Golden's advice to provide $200 million to phase in the tax shifts and they have ignored David Crombie's advice to assess properties at their current use value, not at their potential highest and best use value. Thank you, Mr Chairman and members of the committee, and thank you, Kay Gardner, for letting me share your time.

The Chair: We have about two minutes each to ask questions. With the last questioner I broke the sequence. We will go back to pick that up and begin with Mr Pouliot.

1600

Mr Pouliot: Thank you very kindly. I recently saw a small, brief newscast and it was about cloning. If I was to go to a DNA lab or a forensic study lab and I was to try to see the difference between market value, actual value, current value — isn't it all the same if you're about to be reassessed? The differences are so small that you wear one colour of socks one day, another colour the next day. But grosso modo, people are talking about the same; in fact most people still call it market value assessment. I think it will clear the air because we can spend time and emotion to decipher what is essentially the same.

This is a big mess, or it has the potential of being a big mess. I think there are ways out: time, explanation; not time to delay, but time to implement the right way and in the right order with the same resilience, the same philosophical approach, if it suits your purpose, if it suits the cause. For instance, you have a continuous — imagine that. You just got reassessed. It hasn't happened, let's say, since 1950 at your building or 1904 or whatever, and then the following year you get reassessed again. Continuously we get reassessed. The marketplace does not like uncertainty. The marketplace will respect stability. Can Toronto all at once have an assessment that it hasn't had for years or a reassessment and then the following year the fluctuation that the assessment and other endeavours have brought to the marketplace?

Why not an average of three years? Why not a little more time and you can achieve in an orderly fashion. I'm just wondering now whether I should watch what Standard and Poor's and other bond rating agencies will do and try to pick up your debenture or whether somebody should voucher on the housing market. I don't know. Even speculators want to know, want to have an even chance. They know it's a speculating game. There are many lives here. There are many possibilities without meaning to do so that people will be impacted and they don't know. I would just ask the government, plead with them, listen: Do what you wish, you've got the majority, you'll have your way, but do it in an orderly fashion.

Ms Gardner: I agree with you. We've waited 50 years. As you say, we haven't done it for 50 years, so another year or two is not going to make that much difference. Do it right.

Mr Ford: Councillor Gardner, taxpayers have been asking for fairness and equity in the tax base in Metro. They have also been asking for accountability for their property tax. We're giving municipalities the power through Bill 106 to introduce farmers and equity in the property tax system. Fairness, I should say, not farmers — we were talking about farmers before.

We were just talking with the mayor a very short time ago and she said the property assessments in Toronto are a patchwork. Some residential assessments date back to the 1940s and some of the business taxes and different things of that nature to the turn of the century. You say go slow. How slow do you want us to go? To stop?

Ms Gardner: Not at all.

Mr Ford: I'm just talking here. Do you want us to stop at a tax assessment in the 1940s? Would you like to be paid in 1940 wages?

Ms Gardner: Not at all, but I have fought for a wage increase —

Mr Ford: Then I had another gentleman from the South Eglinton Ratepayers and Residents Association, Harold Pidduck, and he was saying the senior citizens in his area have incomes from the 1930s, to 1940s, to 1950s. I mentioned to him in the 1930s you could buy a car for $400, in the 1940s you could buy it for $800 and in the 1950s $2,000.

If we don't get these tax bases and fairness across the board up to date, the whole damn thing will collapse around your ears and our ears. This is why we're bringing it up to date, because we have to pay firemen more money, we have to pay you more money, we have to pay everybody more money and it just isn't a stagnant situation. It's an ongoing situation.

I understand where the senior citizens are coming from and I have a great deal of sympathy for them because I am at that stage myself. But they have to realize one thing: time moves on, so does the property tax, so does everything else. It has to be equilibrium across the province till we get equity across the province, not only in Toronto but the rest of the province. You can't stand still. If you do, you get rundown conditions, poor services and everything else.

Now, the senior citizens with their equity in their house, if they bought it in the 1930s like some of them said in our recent meetings, would they accept the price that they paid for that house? No. Why not? Why wouldn't they? Because they know there's more equity in that house. But they want the tax rates to be back in the 1940s and the 1950s. This doesn't make sense at all.

Ms Gardner: That's not true. They don't want that.

Mr Ford: Well, some of them are paying rock-bottom prices on their taxes and the equity is still increasing, and that's what we have.

Ms Gardner: Sir, if you talk about fairness, give us the impact studies. That will be the fair thing to do and then we'll talk about the rest of the fairness.

Mr Ford: That's right. We will be.

Interjection.

The Chair: Thank you, Mr Pouliot. I don't believe you're helping.

Mr Phillips: That may give you some insight into what we're dealing with here.

Mr Pouliot: The human dimension.

Mr Phillips: The problem we face is the one that you face, and that is that as Mr Ford just said, "Well, we'll give you the information," after this is law and you can't change it.

Ms Gardner: Yes.

Mr Phillips: They know what's going to happen; they know what would happen if they told the people the impact, and there's nothing quite as fundamental in a democratic society as telling the people who elect you, who you represent, what you plan to do to them. But it is a deliberate, calculated move to not tell you what's going to happen. There's no one in this province who does not believe change has to take place —

Ms Gardner: I agree.

Mr Phillips: — no one in this province believes that it's fair now. But I will just say that you are not being given the information, we're not being given the information, we have a gun to our head and we're told, "You've got to approve one thing, the bill that they are putting forward."

I didn't mean to give a speech.

Ms Gardner: No, you're absolutely right.

Mr Phillips: My friend did, but he has provoked us a little bit here. I guess I'd ask you the question, why do you think the government is hiding the information from the residents, from the people of Ontario?

Ms Gardner: I suppose for the same reason they've introduced all the other bills: they've got to collect some money to give a tax rebate to people who don't need and want a tax rebate. All these bills introduced, unless they take away our right to vote, I'm afraid they've had it, because there isn't anybody who's not angry with what is going on in this province today. People come to me and say, "My God, I voted for these people. How did I ever get to do that? I'm never going to vote for them again," all kinds of people. I'm just disgusted with what's going on.

Mr Pouliot: If you're rich, it's okay. Mr Stronach will get $200,000.

The Chair: Thank you very much. I think we've exhausted our time on this, and we appreciate, Ms Gardner and Mr Joy, your coming in and presenting to us today.

Ms Gardner: Thank you for hearing us.

HOWARD JOHNSON PLAZA-HOTEL

The Chair: We now welcome the Radisson Plaza Hotel, which is sharing its time with the Howard Johnson Westbury Hotel in Toronto. We welcome Mr Durnford.

Mr Bill Durnford: I would like to thank you, Mr Chairman, and the committee for allowing me the time to speak to you today. Mr Vessely was called out of town.

My name, as indicated, is Bill Durnford and I'm the general manager of the Howard Johnson Plaza-Hotel downtown, formerly the Westbury, still affectionately known as the Westbury to a lot of people. My hotel is classed as a full-service, midmarket operation, catering for the most part to the leisure and bus tour market segments. We have 330 guest rooms, 18,000 square feet of meeting room space and employ approximately 140 people.

Like every other hotel within Metropolitan Toronto, we have been severely impacted by the unequitable level of assessment on our operation. Pannell Kerr Forster said in a report, if you have not already heard, that the "excessive levels of realty and business taxation are threatening the economic viability of the hotel industry in Metropolitan Toronto." I can assure you this is a true statement, both from a personal perspective and from having knowledge of the impacts at other hotels.

Tax arrears and receiverships have significantly contributed to the ongoing problems of the industry. My hotel was sold in 1989, went into receivership three years later and was subsequently taken back by the current owner. Since that time, the burden of exceedingly high property taxes has been the principal cause of the hotel's decline. A severe tax arrears situation now exists which the owner has to deal with on an ongoing basis. This has hampered his ability to fund any kind of refurbishment program and even forced the closure of our 225-room north tower in 1993, resulting in the loss of 20 to 30 full-time jobs. Further job loss occurred shortly thereafter when we were forced to close our in-house laundry facilities due to aging equipment.

1610

Unable to maintain a competitive product has resulted in a declining market share for our hotel. In order to attract as much business as possible, we must offer extremely low rates to particular market segments, rates that are below the late 1970s and 1980s. Lower rates obviously reduce the level of operating profit and eliminate our ability to pay property taxes and service debt.

It is my understanding that Bill 106, once passed, will provide hotels fair property tax treatment, that is, we will be assessed at the same level of assessment as other commercial properties.

I would also like to address a number of other important issues, such as variable tax rates which are crucial to the success of the legislation, and the provision enabling the minister to create new classes upon request from a municipality.

The legislation does contain a section, 2(2)(e), that causes the industry real problems and we suggest the government agree to amend it. Specifically, it would allow the minister, upon request from the municipalities, to prescribe new classes of property which could be taxed at a different rate.

We understand the intent of this section is to enable the minister to support municipal objectives. However, the industry has been victimized for some 25-plus years by such discriminatory action and cannot agree that allowing for the possibility of such action to possibly occur in the future makes any sense at all.

Surely if these future municipal objectives are worthwhile and in the public interest, the government of the day would have no trouble introducing legislation.

Allowing for a simple ministerial action will not guarantee an open process before such action would be implemented. It also, in our view, places unneeded pressure on the minister.

History clearly demonstrates that business, when placed against residents, cannot depend on the municipal levels of government to ensure it receives fair and equitable treatment, be it property tax or other areas of municipal responsibility. Bill 106 is about providing fair and equitable property tax treatment for everyone. We urge you not to provide the means to cancel this principle in the same bill.

If my hotel and others are to receive the benefits of property tax reform in the form of lower taxes, then the establishment of the new variable tax rates is critical to meeting this objective. The finance minister, Ernie Eves, in his budget recognized that the hotels in Metropolitan Toronto were disadvantaged by property taxes that were higher than those of the commercial sector and would take action to address the disadvantage.

I and my colleagues are very concerned that all this could lead to the municipality being able to thwart this commitment by way of their ability to set these rates. My local councillor, Kyle Rae, and the majority of councillors in Toronto have been supportive in having these hotels being treated fairly. However, when it comes to residents and property taxes, we do not stand a chance. Therefore, I urge you to ensure that in setting these ranges it is done so that the benefits of property tax reform flow through to us in the form of lower taxes.

It cannot be stressed too much that lower property taxes are the key to restoring economic health to our industry. Property taxes are my largest uncontrollable expense, approximately 20% of my revenues currently. Operating profit, however, is between 15% and 18% of revenues, thus a deficit. I can accept paying my fair share but I need the revenue from lower taxes to reinvest in my operation.

I would also like to state our conditional support for the elimination of the business occupancy tax. It was unfair in its application and, given that millions of dollars went uncollected yearly, it seems reasonable to drop it. I fully expect the municipality to require less money, given it will now collect 100% of its assessment.

However, I am concerned as to the process a municipality would utilize to recapture this lost revenue. Currently hotels pay 30% rate for this tax. I believe that if a municipality does move to recapture this revenue, it must be done fairly and equitably. Given our past record of subsidization, this should not be the beginning of another form of it.

As with the variable tax rates. I urge the government to ensure that in the likelihood this amount comes back on to the property tax base, municipalities must do it in a fair manner. By that, I mean that they should not be able to download it all, or the majority of it, on a class or a class within a class. It must be applied in a fair and equitable manner across the board. I don't mind paying my fair share, but after 25 years of subsidization, we have had enough.

I also want to add endorsement of the three-year rolling average for assessment purposes once the new system becomes fully operational. A blended average will be fairer for all the stakeholders. Assessments based on a particular year can lead to an unrealistic assessment. A three-year blended average should eliminate the spikes and result in a fairer assessment which will hopefully take into account the business cycle virtually all hotels experience.

Before closing, I want to briefly raise the phase-in provision. We have been waiting for over 25 years for fair property tax treatment. Waiting for another eight years to receive the full benefits is tough to accept, especially with the possibility of the creation of a new subclass.

In summary, Bill 106 begins the process of providing my hotel and those of my peers with fair property tax treatment. It is unfortunate we have had to wait for so many years to be treated fairly. Please take the necessary steps to ensure that the fairness this bill will provide us is not thwarted by the variable tax rate process or by allowing new classes to be created by a relatively easy means.

Mr Phillips: One of the previous presenters mentioned the importance of tourism, which I very much support. I think that is a growth industry for us and one that also is kind of labour-intensive, so it has a big advantage.

Frankly, the challenge we face is that the bill the government takes credit for presents some significant problems for municipalities. That's the problem we run into. The elimination of the business occupancy tax: Everybody says to do that and the government has got some high fives down at the Albany Club for it, but it means small business is going to have to pick up a big chunk.

We heard from the municipalities the other day. You're not familiar with this but there's something on the farm tax rebate that the province used to pay. The province has got rid of that and simply said to the municipalities, "You cut your tax rate for farm property." The province again gets a high five from the farm community, but the municipalities have to now pick up the whole cost.

You have a very strong case here. The challenge is that it's $50 million or thereabouts of lost revenue at the same time as Metro Toronto is being asked to pick up another, what they tell us, $600 million of added costs from the province on social assistance and social housing. You're here and you make a very persuasive case on two fronts, one on fairness, and second that we run the risk of doing it to ourselves on tourism if we want Metro Toronto to be really a strong tourism area. Actually, your presentation is very good in that you point out the cost of this — you've got a tower closed, you've got fewer staff and all those sorts of things.

That's a long-winded way of saying you've made a good case. The challenge for Ontario and for the municipal people is that your $50-million fairness means, in reality, that somebody, some other taxpayers need to pick that up. You could say, "Well, just cut expenditures." You've done your job and you've made a very persuasive case. I just spell out the challenge and good luck.

1620

Mr Pouliot: I can somewhat appreciate being placed in a position where, and correct me, 450 or 500 or 600 or

650 square feet would result in a residential tax, if you wish, in a tax of $5,000. If I was to charge $100 per day, that would take me 50 days of occupation just to pay for the tax. If I was running on a margin, and you do indicate this, 20% and your margin is 15% to 18%, that places you in a very precarious position.

Yet you believe — and a bit of it is human nature. If you're placed in the context of choice and someone sees the opportunity to recoup your tax break, and then you have residential, there is one of you and there are more of the others to make it up, and the choice becomes — one could impute motive and say you're running again. Let's face it, it's nice to help one, but it's nice to help as many people as we can. You must not be put in the position where there is a choice, it's either you or the other. I don't think it's fair to anyone. That's not the purpose, the intent.

However, the reality has to reflect that someone has to make up the slack. Somewhere along the line there is a bottom line and it has to come out in the wash. That's a dilemma the government will have to address.

There's also a point you make in your presentation which is consistent with what many have said, and that is, once it's assessed, take time, because there will be some adjustment; I wish to say dislocation but that would be unfair perhaps. But there will be some adjustment. We don't know. Why not play it a little safer because the results are not — doesn't lead to catastrophe. Take two or three years. That you can blend your average and avoid the peaks and valleys, avoid the extreme.

I like your brief. It is the words of the Harbour Castle, your colleagues, and at the Hilton, the hotel industry in general, "Yes, we are, and we sympathize with everybody else, but the thing is, if you were to give us a break, let's see where it is," but don't, in conclusion, the phase-in. I'm wrong so often but it seems to me that if you're under, people will go and get the money. Those who have been waiting 25 years will say: "I can't wait eight years. Take me. My turn's up." Those who have to pay will say, "Why don't you wait eight years?" So there's another dilemma there but I'm sure it can be reconciled. I hope it can.

Mr Jim Brown (Scarborough West): I sense a certain amount of distrust for local politicians in your presentation. Maybe that's a strong word, "distrust."

Mr Durnford: That is a strong word.

Mr Jim Brown: Cynicism, wariness: You seem to be saying when faced with a voter and a business, who are you going to put the tax on?

Mr Durnford: We're just looking for an opportunity to be consulted, in some way. Municipalities are obviously going to be faced with assessing their tax revenues and we're looking for fairness, that if there are some additional tax burdens, and who knows what or if they're going to be, they're spread across every sector evenly. I think that's always been our argument, to be treated fairly as a commercial property.

Mr Jim Brown: But you're saying this Bill 106 is good news, but that you're worried about the local part of it, the municipality deciding to create an extra class or place an extra burden on, say, hotels, or hotels in the downtown area. So what are you suggesting? That the municipality can't do that, that the minister or the legislation spell that out?

Mr Durnford: We're hoping the legislation would be succinct enough to spell out the process in which that would happen.

Mr Jim Brown: If it did that and gave you a little bit more certainty, you might end up opening the other tower and re-employing — how many people did you lose because of that closure?

Mr Durnford: Twenty to 30 full-time jobs in the form of room attendants, housemen etc were lost as a result of closing that tower. That's a direct immediate result.

Mr Jim Brown: So this is good news if you were certain it wouldn't be changed.

Mr Durnford: The owner is definitely not interested in committing additional dollars, and we're talking in the millions, possibly, in refurbishment and reopening towers etc, if there is not some certainty as to future tax assessments or how it's going to be handled.

Mr Jim Brown: If there were more specific guidelines in terms of classes and so on —

Mr Durnford: Definitely. The subclass issue is obviously a scary one for us as an industry because we've been experiencing that over the last 25 years and have been paying the price. So we definitely are looking for some equity.

Ms Bassett: If the tax were going to go on, how soon would you begin rehiring people or spending money? A year or two years?

Mr Durnford: That's hard to say. I can't really answer that question with any kind of certainty.

The Chair: We thank you very much, Mr Durnford, for coming in and joining us today and making your presentation. We appreciate it very much.

Is the Markham Association of Residential Condominium Owners present today? The Confederation of Residents and Ratepayers Association of Toronto, Mr Ritch? You've arrived. Do you need a moment?

Interjection: No, I'm not Mr Ritch. There are three of us going on for the confederation and the other two gentlemen are not here yet.

The Chair: In that case, since the Markham association is not here either and apparently has cancelled, we have 10 minutes. Suppose we have a five-minute break, which the Chair would appreciate. This committee stands in recess for five minutes.

The committee recessed from 1626 to 1634.

CONFEDERATION OF RESIDENT AND RATEPAYER ASSOCIATIONS

The Chair: We welcome the Confederation of Resident and Ratepayer Associations of Toronto: Mr Maguire, Mr Opara and Mr Ritch. Welcome to the standing committee on finance and economic affairs. Would you identify yourselves for Hansard as you start.

Mr Dale Ritch: My name is Dale Ritch, to my left is Brian Maguire, and next to him is Michael Opara. We're all on the executive of the Confederation of Resident and Ratepayer Associations in the city of Toronto. Mr Maguire is going to lead off and I'll make some remarks and Mr Opara will be the final speaker in our delegation.

We've also got a few of our member representatives sitting in behind us today to observe our presentation. I'd like to thank them for coming out today as well.

Mr Brian Maguire: In that regard, would it be improper to ask each to stand and identify himself or herself?

The Chair: It's your time. You might mention their names as they stand up so that Hansard will pick them up.

Mr Maguire: Bob Barnett of the Sussex-Ulster Residents' Association, Al Fisher of Rathnelly Residents' Association, and Louise Dickin and David Thornton of the Moore Park Residents' Association.

I'm the membership secretary and co-treasurer of CORRA and I represent the North Hill District Home Owners' Association on CORRA, which is basically Forest Hill, and it's probably inherently more conservative than most of the areas, therefore one has to go to particular lengths to change that conservative predisposition. I'm also a member of the Tory St Andrew-St Patrick riding association.

Two important issues and the way they're being handled by the present government have certainly produced a lot of negative feelings. The first is the megacity, which I'll just briefly say produced a 71% No vote in our ward. Much of the reason for that was the total unwillingness and/or inability of municipal affairs to convey the idea through documentation and impact studies that the plan had been well thought through. To even think of dismantling and attempting to reconstruct a world-class city on such a flimsy basis in unthinkable.

I voted Conservative and I think of myself as supporting that philosophy, but the mark of the true Conservative is independence and individuality. The mark of a strict socialist is conformity and uniformity, and every worker is a drone or cog working for some greater good. Any means are justified to reach that end. Tory caucus members are being asked to take party positions that ultimately will impugn their personal integrity, and incidentally, the same thing would happen in the megacity because of the necessity of party politics to fund such large campaigns.

I bring this up because the actions by the government on Bill 103 and Bill 106 seem to me to indicate that normal democratic processes are being ignored to facilitate the government's ends. I've attended every public meeting in St Andrew-St Patrick and St George-St David on these two bills since the start, and promises were made going back to pre-election that have been ignored. You're familiar with the flyers issued by Mr Leach and Ms Bassett that promised no MVA.

On November 22, 1995, Al Leach held a public meeting at Rosedale United Church. It was chaired by the president of the South Rosedale Ratepayers' Association, Nigel Frawley. Among roughly the 80 people present were the president of the Summerhill Ratepayers' Association, Barry De Zwaan, an executive of the Federation of Metro Tenants' Associations, and myself as the director of the North Hill District Home Owners' Association, all of whom will attest to what was said there.

In response to a question from the audience, Mr Leach publicly stated that he would never impose MVA, nor anything even similar on Toronto, and if he did he would resign. Mr Leach says he likes a system known as AVA. In 1974 the Supreme Court of Canada ruled that the term "AVA" is interchangeable and synonymous with the term "MVA."

In the Toronto Star of May 2, 1996, Premier Mike Harris commented on Sheila Copps not living up to her promises and thought it was proper that she resigned. He was then quoted as saying, "I think it's reasonable that politicians who campaign in a direction or on a platform for things that are within their control, that they ought to resign or go back to the people if they in fact are going to change their minds." Mr Harris then said he would resign if he didn't keep his own pre-election promises.

Finally, on the use of the words "fair and equitable" by Mr Eves in connection with an assessment system, no assessment system is particularly fair unless it is related to income, and the more tax burden the property tax bears, the more onerous it is. We have many retired senior citizens in our area who bought homes there many years ago and because of the vagaries of the market will now be faced with tax increases of 60%, 70% or 80%. My own taxes would have gone up 100% had MVA been implemented in 1992. While that was the height of the market, who's to say that it might not rise again? To suggest that the reverse mortgage will mitigate this for these seniors is unconscionable. It would severely deplete their lifetime nest-egg.

1640

What many fail to acknowledge is that the market has been at work all the way along, and in those areas that may now have lower taxes than others, that advantage has been capitalized. To buy such a house, it will cost you much more than a comparable house with the higher taxes in the suburbs. The suburban house buyer will have a capital surplus to invest to offset the tax disparity. If a new system is selected, it should have a provincially mandated non-discretionary phase-in time long enough so that the market can adjust gradually without substantially affecting house prices, such as at least 10 years or more.

Mr Ritch: I want to say I'm delighted. This is the first time I've ever appeared before a committee at the Legislature where we've been ahead of schedule. It's a rather unusual circumstance but one that I appreciate.

I want to talk specifically about an aspect of Bill 106 which might be surprising to some members of the committee — not the impact on homeowners, and I should say that CORRA is basically an organization, realistically, of homeowners. We have some tenants involved in some of our organisations but almost all of our 30-member associations, it's fair to say, are homeowners' associations. They're called residents' associations or ratepayers' associations, but they're really homeowners' associations. We have one business association that's affiliated with us, but I think the perhaps the most negative impact of this bill will be on the commercial sector in Metropolitan Toronto.

The members of the committee should appreciate that what market value assessment — actual value assessment, current value assessment, they're all really the same thing, whatever the latest catchphrase is to describe it — will do is impose a major shift of the tax burden from the

banking sector and downtown office towers down onto the backs of independent small businesses which are located primarily on the commercial strips all across Metro, and there's no distinction here between the six cities in Metro.

More than $100 million per annum will be shifted, due to the current value assessment alone, from the large office towers downtown onto the backs of small commercial ratepayers across Metro. Just to give an example of the impacts here, and I take these figures from the technical appendix to the Golden commission — a CD-ROM that was produced by the Ministry of Finance and circulated with the material of the Golden commission — this report detailed the impacts on the commercial sector due to I guess then it was actual value assessment; now it's current value assessment.

Based on 1994 taxes, the average commercial ratepayer in the city of Toronto would actually appreciate a tax decrease of 8%. This is again largely because of the shift from the office towers downtown and the banking sector onto the backs of small businesses. In North York the average commercial ratepayer would get an increase of 6%. This is just due to current value assessment. In Etobicoke the average commercial ratepayer would see a 14% increase. Scarborough: a 24% increase on the average commercial ratepayer due to actual value assessment or current value assessment. East York, even more dramatic: a 29% increase. In the city of York a devastating, incredible 41% increase on the average commercial ratepayer due to current value assessment.

I want to bring to the attention of the committee the fact that there are no impact studies on how commercial ratepayers would be affected outside of Metro, in the 905 area or other areas across the province. Can you afford, as MPPs, to play Russian roulette with the business ratepayers in your riding? There is no reason to believe that the impacts on business ratepayers outside of Metro will be any less than they are within Metro.

I beseech you, then, before you vote for this bill, find out how businesses in your riding will be affected. Don't just blindly plunge ahead and ram this bill through the Legislature like you're doing with Bill 103.

I want to point out that this will be a tax hike that has absolutely nothing to do with the normal costs of business: things like wages, raw materials, interest, insurance etc. This is an arbitrary tax hike which will severely affect the bottom line of tens of thousands of commercial ratepayers across the province.

I want to remind all of you how a property tax revolt broke out in Ontario in the early 1990s. An industrialist by the name of George Lansens — he owned some auto plants in a small town called Blenheim outside of Chatham — in the early 1990s organized a municipal tax strike because of a market value reassessment that took place in the Chatham area in the early 1990s. Within months dozens of groups were set up in the blink of an eye all across the province, and these groups were a significant factor in getting the Tories elected two years ago. Frank Sheehan, the MPP for Lincoln, was a leader in this movement and you can ask him about it, the members of the Tory caucus.

Such a movement could easily spring up again. Remember, the implementation of the new MVA scheme is set for the first tax bill in 1998, only a year before your government will likely want to go to the polls. That's just over a year from now that those first tax bills will go out. I might add that the tax increases will be double in that first commercial tax bill because that will be the second bill which goes out to most businesses. In the case of a 24% increase in Scarborough, those businesses in April or May of 1998 will get a 48% increase in their property taxes.

I have to point out that there's another aspect of the bill that will multiply the tax hikes on the commercial sector across the province. This is the recommendation to abolish the business tax. Karl Mallette, an economist with the Canadian Federation of Independent Business, brought to your attention earlier in the week the problems with abolishing the business tax. As you know now, most of the independent businesses that are on the commercial strips pay their business tax at a 30% rate on top of their real estate taxes. The banks, for instance, pay at 75%; many of the large commercial tenants downtown pay at 60%.

Municipal governments will want to collect the same amount of taxes from the business sector after this bill goes through as before; make no mistake about that. I want to remind you that in Metro over 55% of the total tax take from municipal property taxes is from commercial and industrial taxes, of which commercial taxes are the vast share.

The tendency will be to bring all categories to 50%, the business taxes to 50% of the real estate taxes. I've got some numbers here on the city of Scarborough just to give you an idea of the incredible impact on the businesses in the city of Scarborough. Taking a typical business which is paying $5,000 real estate taxes now in Scarborough, which is taxed at a business tax rate of 30% to create $1,500 business taxes, they're now paying $6,500 a year.

What's going to happen after Bill 106 goes through as proposed by the government here? On that real estate tax bill, with a 24% increase — that's another $1,200 — your real estate taxes will be $6,200 rather than $5,000. If you take 50% of $6,200 real estate taxes, add on another $3,100 business taxes, you get a total tax bill of $9,300 instead of $6,500. You're looking at an increase of $2,800, which is a 43% average tax hike for businesses in the city of Scarborough. And that will be doubled because all that will go on to the one bill that goes out in May. So that will be an 86% increase. The average commercial ratepayer in the city of Scarborough will get an 86% increase in May of next year.

Think about that. And I want to remind you that the city of York is even worse. The average increase per business there on the real estate taxes is over 40%. I'd like to suggest, ladies and gentlemen of the committee, that your government has no mandate to bring in a bill of this type which will have such a devastating impact on the business sector in the province.

I want also to suggest that what we're looking at is a third-rate type of market value assessment. It's not at all what you proposed initially, 18 months or so ago, when you started talking about actual value assessment, and it's third-rate because of two factors.

One is the three-year envelope initially in the actual value assessment and what is currently in use in the province. The three-year envelope to average the assessments so that market fluctuations can be smoothed out has disappeared. All assessments will be based on market values on one day, which is June 30, 1996. This is a time of a lot of fluctuation, a lot of change in the real estate markets. This is just June of last year.

Second, it's a third-rate system, not a second-rate system but a third-rate market value assessment system, because you don't have professional assessors giving accurate assessments like you do in British Columbia. That's gone as well. Because of the cost of that, we've got a bunch of amateurs, a bunch of students out there doing fly-by-night assessments, and what you're going to get is a system that's full of cracks and holes and there's going to be all kinds of appeals with it, just like we currently have.

1650

So what you guys are trying to force on the province is a third-rate market value assessment system which is going to have a tremendous impact on the commercial sector across the province.

In conclusion to my remarks, I want to talk about the filibuster on Bill 103. CORRA wants to thank the opposition parties for organizing the filibuster on Bill 103. We think the Conservative government has no mandate to bring in amalgamation and has besmirched the integrity of the provincial Legislature by attempting to ram this bill through the House.

We believe this bill should be tied up at least until the downloading part of Bill 103 is put on the table. You've managed to decouple downloading, which of course we know is integral to the whole Bill 103, for a later time. We want the filibuster to continue. We're behind the filibuster 100%. We want to see the effects of downloading before this bill is brought before the House and passed.

In conclusion, we think this government has no more mandate to bring in Bill 106, a third-rate market value assessment system, than you have to bring in Bill 103. We are issuing an open invitation to the opposition parties to extend the filibuster to Bill 106 and we will do everything we can to support that filibuster if you decide to do that.

I want to thank you very much for hearing my remarks and I'll turn the microphone over to my colleague.

Mr Micheal Opara: My name is Michael Opara. I'm vice-chair of the Confederation of Resident and Ratepayer Associations in the city of Toronto. I'm a businessman living in North Toronto. I contributed financially to the Conservative Party in the last election and spent many days on the campaign trail. I feel stabbed in the back by what this government is doing.

This bill and the other bills, especially the megacity bill, show that this government does not listen, does not care what people want, will do the opposite of what it campaigned for, and in fact has been described, and I agree with this, as a dictatorship except at election time, as Tory Toronto city councillor Tom Jakobek stated.

When will you Tory backbenchers realize that this slew of bills, some of the worst of which are coming from Al Leach, will result in your not only being defeated in the next election but, as one well-known Tory told me the other day, you are going to be crushed in the next election? Probably only one of you — you'll have to figure out who — has a chance to be re-elected.

How much longer will you tolerate this kind of leadership from Mike Harris, Mr Leach, Mr Johnson and Mr Eves? It's like the captain of the Titanic, who said "Full speed ahead" through the ice fields so he could win the speed record. The only difference between those on board the Titanic and the government members is that those on board the Titanic knew it was sinking after it hit the iceberg and went for the lifeboats. Mr Leach doesn't seem concerned. Apparently he doesn't intend to run for re-election.

This bill is market value assessment pure and simple. Sure, you can call it by a different name, but it's market value assessment. You've heard people before tell you it's an unfair, expensive and unstable system. We at the city of Toronto have asked for a local option, and we would perhaps choose the commonsense unit assessment system. It means that communities decide for themselves and you won't have hundreds of thousands of property taxpayers mad at you in the next election.

I hope the opposition will send a postcard to each property owner hit by this tax increase and remind them that it was Taxhiker Harris and their local PC member who gave it to them. In the riding of Eglinton, our local member will be tagged with a $30-million tax increase for the residential homeowners. You think you'll be re-elected?

In my own case, I live in a 1350-square-foot house on a lot with a 25-foot frontage and a 150-foot depth. I pay $2,700 per year in property tax. With MVA I'll be paying about $4,500, and up to $6,000 dollars if you add in the downloading, the megacity costs etc. This has to be paid out of after-tax income. If I have to pay this tax, I guarantee that you on the government side will be paying.

Polls are lagging indicators and you are much further behind than today's poll of 5% suggests. I think you'll end up in third place if any of you get re-elected. This legislation is so ridiculous that the assessor has the right to revalue my home every year and enter my house. If I put in an extra bathroom, I get a tax increase. Did you know that one of the assessment criteria is the condition of the front lawn of your house? Are these Conservative principles: a government agent having the right to come into your house every year? You are providing an incentive to all people to let their property run down into a slum. Even the socialists abandoned this scheme. Perhaps this summer we should leave a patch of grass uncut on our front lawns as a protest. You can call it the Harris tax increase patch, or the Leach tax increase patch. This is market value assessment in action.

Another example: My elderly aunt put in storm windows and remodelled her kitchen. The assessor came by and increased her assessment by 17%. I appealed it for her. We won, but the following year she gets the new bill with the old 17% increase back.

The reverse mortgage? It's nothing other than government confiscation of people's property.

Here we have a minister in Mr Leach who campaigned against market value assessment and promised to resign if anything similar to MVA came in. Mrs Bassett ran against MVA as well. Here's a minister who mismanaged the TTC and who is now making you carry the bag for his incompetence and arrogance. To the opposition I say, keep up the filibuster, force the government to an election. To the government members: Remember in the First World War when the generals sat safely behind the lines and sent the troops charging over the tops of the trenches? Well, very few of them survived.

I'd like to also introduce George Teichman, past president of the Lawrence Park Ratepayers' Association; Dave Vallance, chair of CORRA and president of the Bloor Bathurst-Madison Business Association; Margaret Blair, planning advisory committee and past-president, I believe, of the Lakeshore Area Residents' Association; Wendy Arnett of Hillcrest Park; Richard Jessop, businessman and president of the Avenue Road-Eglinton Community Association and a vice-chair of CORRA. Thank you.

The Chair: Thank you very much. We have exhausted our time. We appreciate very much you coming in and sharing your views with our committee.

The committee stands adjourned until 9:00 am in Thunder Bay on Monday next.

The committee adjourned at 1658.

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CONTENTS

Thursday 10 April 1997

F-39 F-39

ISSN 1180-4386

Legislative Assembly of Ontario

First Session, 36th Parliament

Assemblée législative de l'Ontario

Première session, 36e législature

Official Report of Debates (Hansard)

Monday 14 April 1997

Journal des débats (Hansard)

Lundi 14 avril 1997

Standing committee on finance and economic affairs

Comité permanent des finances et des affaires économiques

Fair Municipal Finance Act, 1997

Loi de 1997 sur le financement équitable des municipalités

Chair: Ted Chudleigh
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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Monday 14 April 1997

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Lundi 14 avril 1997

The committee met at 0859 in the Valhalla Inn, Thunder Bay.

FAIR MUNICIPAL FINANCE ACT, 1997
LOI DE 1997 SUR LE FINANCEMENT ÉQUITABLE DES MUNICIPALITÉS

Consideration of Bill 106, An Act respecting the financing of local government / Projet de loi 106, Loi concernant le financement des administrations locales.

The Chair (Mr Ted Chudleigh): Welcome to Thunder Bay. I thank the committee and deputants for their promptness this morning.

THUNDER BAY CHAMBER OF COMMERCE

The Chair: We welcome the Thunder Bay Chamber of Commerce, Rebecca Johnson, president. We have 20 minutes to spend together, Ms Johnson. If you would introduce your associate for the purposes of Hansard, we'll begin with your presentation and fill any remaining time with questions.

Ms Rebecca Johnson: Thank you, Mr Chair. I'll defer to the chair of the board, Doug Smith.

Mr Doug Smith: Good morning, ladies and gentlemen. My name, as Rebecca said, is Doug Smith, chairman of the board of directors for the Thunder Bay Chamber of Commerce. With me this morning is our president, Rebecca Johnson. We welcome the members here to Thunder Bay, an area that we consider very special and, as the centre of northwestern Ontario, we're very excited about our future. I might just start by saying it's a pleasure to see government back at work.

We are pleased to have the opportunity to address the standing committee on Bill 106 this morning, dealing with the Fair Municipal Finance Act under finance and economic affairs. Our chamber of commerce, for your information, represents some 950 member organizations in our community of Thunder Bay, a population of about 120,000, and over 1,300 voting representatives.

The general focus of our chamber of commerce during the past couple of years has been, and continues to be through 1997, a focus on municipal issues. The Fair Municipal Finance Act is one of those issues which is of great importance to our membership and to our business in general within the region of northwestern Ontario. We realize the impact on all facets of our province through the passage of this bill but specifically the impact on our business communities.

Bill 106 is long overdue from the business perspective. Methods on the way businesses are assessed are outdated. The province does need to create a fair property tax system for everyone in Ontario. You are aware that many property assessments have not been updated in several years, with businesses paying, in many cases, more property taxes than they can afford in order to stay competitive in a changing environment.

We have noted on several occasions that the Thunder Bay Chamber of Commerce applauds the government of the day for looking at ways to eliminate duplication, overregulation and blurred responsibilities between the provincial and municipal governments. With this in mind, we are pleased that the Who Does What panel recommended the province have an updated property tax system that is fair, effective and stable.

The Thunder Bay Chamber of Commerce supports the elimination of the business occupancy tax, the BOT, as it is considered by the business community to be unfair, outdated and discriminatory. It does not reflect the realities of Ontario's current economy. The elimination of the BOT should assist to correct the current inequities of taxes between municipalities. Indeed, the Thunder Bay Chamber of Commerce is aware of local and regional businesses that have chosen to take their enterprises to other jurisdictions because of the outdated tax system that we operate in today.

As identified in the Ontario Chamber of Commerce submission to your hearings, we agree that the introduction of a common assessment base across the province will restore fairness to property taxation. Annual property reassessments will keep the system current and the legislative provision for a three-year rolling average will help smooth out potential fluctuations in property assessment values. It is also important to note that the new legislation will give municipal governments tools to manage the tax changes for businesses as they deem necessary. This will be a challenge for our municipal leaders as it would then be up to them to determine the tax ratio for each property class. It is imperative that the province establish guidelines for our municipalities to work within.

The government, with the many changes proposed with the transfer of responsibilities, indicated that there would not be a tax increase. This must not happen with the changes proposed. The Thunder Bay Chamber of Commerce will continue to monitor our municipal tax plans with an eye to no tax increases.

With the chamber of commerce membership comprised of small businesses, which is approximately 75% of our membership, it is important to note that these businesses should be paying the same amount of tax if their properties have the same value. With the proposed legislation

of annual assessment updates, businesses can then plan properly for the future.

Chambers of commerce have recognized for several years that business confidence must be improved in our province. Our provincial government must continue its efforts to create a more competitive environment for businesses in the global economy. This will allow businesses planning to enter the Ontario marketplace to be better informed as to the arena of fair taxation and the taxation they'll be considering.

The Thunder Bay Chamber of Commerce supports the introduction of a simplified appeal process dealing with disputes over property assessments or classifications. The Ontario Chamber of Commerce addresses the issue of the goal for this process, which is dispute resolution and a reduction in the backlog of cases. They also note their concern that this factor might not address the issue of revenue shortfalls. We have been fortunate here in Thunder Bay, where our municipal government has recognized the business sector's request for a no-tax increase. They are to be complimented for adhering to this no-tax increase through an increase in user fees or by other methods like examining their administration costs. Other municipalities have been forced, we understand, to increase their tax rates to help pay for local services. It is not fair that businesses pay more taxes because unnecessary appeals are generated by an outdated assessment system and thus make the economy less efficient.

Property tax inequities must also be eliminated. A streamlined assessment appeals process, combined with the stabilization of the assessment tax base, are two of the keys to returning fairness to our system of property taxation.

Under the fair assessment system, the concept of a value added assessment system where every property will be assessed based on current values is supported by the Thunder Bay Chamber of Commerce. Businesses require a fair, understandable and open tax structure. We also support having municipalities reduce unfair differences in tax rates in a manageable way but not being able to increase existing differentials in current tax burdens between property classes. An overall tax reduction would help to stimulate new investment in our province.

The Thunder Bay Chamber of Commerce supports the direction taken by the Ontario Chamber of Commerce in the use of variable mill rates as an acceptable means of implementing many of the changes proposed in Bill 106. Municipal governments will have more options when deciding what tax rates to apply to each property class, making it easier for them to make consistent improvements in steps that are acceptable to local taxpayers.

Smaller businesses such as neighbourhood shopping malls and small retail stores should benefit from the plan, allowing municipalities to set lower tax rates on lower-valued commercial properties. Municipalities, with proactive management, will be able to provide a more supportive tax climate for all businesses. In fact, municipalities can give tax reductions solely to business classes if that choice best suits their local needs.

Here in Thunder Bay, these new plans will provide an opportunity for the city of Thunder Bay to address the current situation in the two downtown core areas by providing tax incentives to new businesses for a period of time. Bill 106 provides for creative solutions to current challenges facing the business community.

Although not a top priority issue, it is recognized that Bill 106 is planning to use language more understood by the common citizen. We note that the act proposes to use the term "tax rate" rather than "mill rate" in expressing a percentage of the assessed value of property. This is commendable.

Farm lands and eligible managed forests will now be valued in a similar manner to each other as a class of property. We understand that eligible conservation lands will be exempted from property taxation. We are pleased to see both of these occurring. The north recognizes the value of these properties as an enhancement of our ecotourism opportunities.

Railway or utility rights of way are currently assessed based on the value of abutting land, which has created considerable tax inequities. Our Ontario Chamber of Commerce has requested the government to review the manner in which railway rights of way are treated for the purposes of property tax assessment. Rail is a vital mode of transportation here in the north. Government must ensure that they are dealt with fairly when being assessed, in a manner that is consistent with other modes of transport.

We note that you have included the Canadian airport authorities in Bill 106. It is also important for these authorities to know what they can expect for tax treatment as they continue to evolve into non-profit organizations.

As we have previously stated in our presentation this morning, the municipal finances have been in need of updating for several years. We are hopeful that the proposed legislation under Bill 106 will eliminate the inequities in the amount of property taxes paid by the business sector. Property tax is the single largest tax for which businesses are responsible and should be an incentive for doing business in Ontario and in northwestern Ontario and not a disincentive.

0910

Small businesses such as those represented by the Thunder Bay Chamber of Commerce must have an environment where they can create jobs and compete effectively in the global marketplace.

The Thunder Bay Chamber of Commerce once again extends its thanks to the members of the standing committee for coming to Thunder Bay. We support the direction being taken by Bill 106, and we leave you with our comments as you move towards improving the property tax laws in our province.

The Chair: That leaves us about three minutes per caucus for questions, and we'll begin with the official opposition.

Mrs Lyn McLeod (Fort William): I know if Gerry Phillips, our finance critic, were here, as he will be very shortly, he would want to begin by saying that we agree with you in terms of the inequities in the current tax assessment system having to be corrected. It's with that same approach that we are looking at this legislation. I particularly appreciate your making mention of some of the unique concerns of northern Ontario and the way in

which the tax changes will affect northern Ontario, in some cases in a beneficial way. In some cases you raise concerns like the rail lands and the airport authority that are obviously going to be concerns for us.

One of the issues that we have a real concern with, though, is one that you've actually touched on and see as a positive, and that's the business occupancy tax. I'd like to just explore that with you for a minute. It's not so much the withdrawal of the business occupancy tax that we might object to but the fact that the province, in withdrawing it, is withdrawing municipal revenue, and the expectation is that the municipality is then going to have to raise that revenue in other ways. It's an area that the CFIB has raised some very real concerns with, as has Gerry Phillips.

The analysis of it seems to suggest that if the revenue is regained through the realty tax, the very large businesses would indeed see a net reduction in their taxation, because they were paying a lot at the high end of the business occupancy tax, but the small businesses could end up with an increase in actual taxation because they were being taxed differentially under the business occupancy tax. I know you, as a chamber, and we in this community have a particular focus on the survival of our small businesses. I'm just wondering whether or not you've had a chance to look at that in terms of who the beneficiaries might be, whether we have large businesses that might be beneficiaries from this and whether there are small businesses that could be hurt.

Mr Smith: We're still waiting to determine that, but we share your concerns very much, especially in terms of small business. As we tried to mention, when all the changes come down, to increase taxes to any of the sectors is detrimental in terms of what should occur for the future so that we remain competitive, especially small business. There's no question that small businesses are at the brink in terms of what they're paying for taxation. So whenever the plan shuffles out, it's very important that the net result not be an increase in taxation. We're very concerned about that and very interested in the figures, to compile and analyse them and lobby so that doesn't occur.

Mrs McLeod: I agree with you. I think it's a little unknown when you come into a community like this. In downtown Toronto where they have the bank towers, the bank towers are certainly going to be beneficiaries. We don't have a bank tower, so it's a little hard to extend the comparison, to know exactly who would benefit and who would potentially be hurt by that kind of differential.

Mr Gilles Pouliot (Lake Nipigon): Welcome, Rebecca and Mr Smith. There will be winners and losers. I take it that your membership is made up mostly of medium-sized and small businesses, am I right?

Mr Smith: Correct; 75% is small business.

Mr Pouliot: I also note, with respect, that you are philosophically in favour of what the government intends to propose.

Mr Smith: Yes. We understand that things have to be changed so that the business community is more competitive.

Mr Pouliot: I also understand that you would be opposed to any increase in taxes for your community.

Mr Smith: Businesses, especially small businesses, are at the brink right now with what they are paying for taxation.

Mr Pouliot: I'm sure, Mr Smith, that you have factored in not only what is being said under Bill 106 but the shift in responsibilities. Some will call it downloading; some will call it an exchange of services, if you wish. In the future, it seems the business community will still be responsible for the education portion. The residential levy will benefit from an exchange — well, benefit or not, but will be subjected to an exchange. They will forgo their responsibilities vis-à-vis education, but they will pick up the slack for responsibilities.

This exercise is not revenue-neutral. The government needs the cash. The winners will be the large corporations because of the business-occupancy-tax philosophy, the approach to it. Someone will have to pick up the slack. The local politicians will have to decide whether they pass it on to the residential levy, to the homeowners, and/or to the small business community.

When you factor everything in, it might well be that you will not see a decrease in commercial taxes but quite the opposite indeed, an increase. Would that change your mind in terms of supporting Bill 106, if you were to be subjected to an increase?

Mr Smith: With Bill 106, as you have indicated, the municipalities become more of a player in terms of setting their policies. I think we here in northwestern Ontario have confidence in our municipal government, as long as they have a fair and flexible guideline to work with, that we can work with them to deal with those possible inequities and be able to meet the needs of our communities both from a small business perspective and a big business perspective.

Ms Isabel Bassett (St Andrew-St Patrick): Thanks for your supportive remarks about Bill 106; they're very instructive too. I just want to make sure that we emphasize or re-emphasize what you said in your presentation, that eliminating the business occupancy tax is not going to be harmful to small businesses. You place enormous confidence in the municipalities' desire to create a good business climate. Perhaps you'd just re-emphasize, given the fact that we are allowing them to create a two-tier tax system, that they are going to be doing what is best for business and that the small business operator will not be harmed.

Mr Smith: I would agree with that, again, as long as they have a good, fair playing field they can operate from, with good guidelines and flexibilities. I believe, especially up here in northwestern Ontario, we are quite capable of setting our direction and implementing that direction given proper guidelines. I think it's a positive opportunity for us to look at all sides, knowing exactly what we're dealing with, and then come up with what's fair.

Mr Joseph Spina (Brampton North): Doug, we're back; good to see you again. Thanks for the report, by the way. You covered many issues. In particular, you addressed a couple that are not often addressed by other associations, and that is the railway and utility rights of way and the airports. You're asking that the government review this whole situation of tax inequity for railroad

properties and abutting properties, and I want to assure you that we are in the process of doing that, and it will probably be an adjustment in some later bill as a follow-up to Bill 106.

It is an issue that's being seriously considered, because we do realize the importance of rail transit, rail transport, particularly for the north here and also certain sections in southern Ontario as well. But we know it's an important element, so I just want to assure you that it is in the process of being reviewed. If you have any recommendations or input you would like to proffer, we would certainly welcome it. Any ideas you would have that we should keep in mind as part of this review, we would certainly welcome that input. Thanks for coming.

The Chair: Thank you, Mr Smith and Ms Johnson, for taking the time and presenting to the committee today. We certainly appreciate your input. Thank you very much.

0920

PETER ZANDSTRA

The Chair: We now welcome Peter Zandstra. Welcome to the standing committee on finance and economic affairs. We have 20 minutes to spend together. If you would like to make a presentation, we'll fill any remaining time with questions.

Mr Peter Zandstra: Thank you, Mr Chairman, committee members. First of all, I think I should apologize for not having my presentation typed out and distributed, but time was of short supply, so I'll read it and maybe later on I can pass it around.

I thank you, first of all, for giving me the opportunity to comment on Bill 106, dealing with the financing of local government. My name is Peter Zandstra. I am a retired dairy farmer. I do not represent an organization or a group, but I am speaking as a citizen interested in municipal structure and financing.

The municipal and education tax system has always been somewhat of a mystery to me. When still farming, I observed sometimes big differences in the amount of taxes paid by similar farms located in different townships.

Many farmers have little or no control over the prices they receive for their product and are sometimes unable to recoup these costs. To alleviate the burden, farm tax rebates have been provided by the Ministry of Agriculture and Food on a year-to-year basis. Like all subsidies and rebates, there is little or no incentive to keep costs down by fighting for a lower mill rate or a lower assessment. I believe Bill 106 to be a very attractive alternative to these rebates.

Farmers do use municipal services and should pay their fair share. The proposed 25% of the residential rate on land and production facilities seems very reasonable. The inclusion of managed forests in the above rate is an excellent idea. This may enhance the conversion of idle land into forestry use and provide low-cost access for timber users. The total elimination of tax on conservation land, mainly swamp and bog, will be of immense benefit to the wildlife and the waterfowl populations.

The new assessment system based on current value is long overdue. For many years some residents have been getting a free ride by paying only a fraction of their share needed to cover municipal expenses. I remember a report in our local newspaper about a resident of an unorganized township annexed by Geraldton. The person's tax bill was less than $50 per year before amalgamation, $550 thereafter. Naturally, the person so affected will scream at the rise of 1,000% in the tax bill. But who subsidized this taxpayer for all those years?

This scene will repeat itself many times in the greater Toronto area, where many buildings are taxed on their value in the 1940s. Bill 106 or its equivalent should have been introduced and passed long ago, but previous governments were apparently not disposed to tackle the problem. Therefore, inequities persist up to now. The changes could cause hardship to people on fixed incomes, but a provision of deferral would alleviate or eliminate that concern.

The removal of mill rate and its replacement by tax rate is another good feature of Bill 106. It will make our tax bill much easier to understand. It will take time for our municipalities to adjust to some of these radical changes. I would like to propose that all needed support be generously extended by our provincial government. Seminars should be held to instruct and familiarize our elected municipal representatives and their officials.

To sum up, Bill 106 is an excellent piece of legislation. Long overdue, it should be passed without delay. Thank you.

The Chair: Thank you very much. We appreciate your presentation. That leaves us about four minutes per caucus for questions. Could we start with the NDP?

Mr Pouliot: Thank you, Mr Zandstra, and good morning. I'm fully appreciative of Mr Zandstra, the citizen, this morning, who commends the government on what you foresee as a good piece of legislation which is long overdue. While we too wish to focus on the positive and to commend the government for good pieces of legislation, our task asks us to go beyond the headlines and to start digging. We find out that what you gain on the farm, the few dollars that you can reinvest, you lose on the property, because this is not even a tradeoff. The city of Thunder Bay has indicated that it will lose anywhere from $15 million to $30 million — aside from the closing of the hospital; I don't want to talk about this, Mr Zandstra. The money will have to come from someplace. That's the other shoe that's about to fall.

I too would wish to expedite this legislation. It's not my role to delay anything. We all work together. However, before I would do this as a representative, I would want to see the bigger picture, and that bigger picture is not a pretty picture. The sky is very low. There are no stars. It's very dark out there. Maybe that's the true agenda.

I would wish, with respect — while I conclude and thank you for your excellent presentation and your faith in the future — that the good side, the other side, comes through, but I fear that when all is said and done many of us will wake up one day with a very unpleasant surprise, because this benefits the big corporations, those who have power, those who are rich, at the expense of those who don't have as much power, who aren't as rich. So I caution you, but I thank you for your presentation.

The Chair: Would you have any comment to that, Mr Zandstra, or should we move on to the next question?

Mr Zandstra: I would comment on it in so far as, and I think I mentioned it in my presentation, if there is a rebate and a grant, it's taken for granted. If it comes out of your pocket, you're going to fight it. That's one of the reasons I believe our education taxes are so high, because if there is an increase and if you kick, the first thing you're being told: "Are you against our children? Our kids are going to suffer." So reluctantly you pay. But in municipal taxes it's different. You know your councillors, you know the people, and if they are raising your taxes, you tell them: "Cut that. You have to be re-elected. Make sure you are careful with our money." I think that is the difference. That's why I think it's better this way.

Mr E.J. Douglas Rollins (Quinte): Thanks for your presentation. I think there are a lot of farmers who feel quite a lot the same way as you, that the rebate you had to apply for could have been used in putting crops in in the spring rather than sending that cheque off and waiting until later on in the year, or tying up those dollars in that rebate that was coming but it wasn't left in the bank for you to be able to use and reinvest in seed and fertilizer and everything else that you have to do in the spring to make sure that you continue that extra crop and farming.

Do you see that the 25% will keep our coverage of our costs as far as the rest of the municipal tax is concerned?

0930

Mr Zandstra: I haven't actually thought this through because I was a little pressed for time and I have not consulted with other farmers and farm organizations, so I could not actually answer this question at this time.

Mr Rollins: One of the things we have put in the bill is that there is some money set aside for areas, maybe not so much up here but in some other municipalities, where a large portion of the municipality is under farming, so it will lighten their impact as far as the municipality is concerned to collect taxes.

Thanks again for making the presentation.

Mr Douglas B. Ford (Etobicoke-Humber): Mr Zandstra, I understand, the way you're talking there, your deep concerns about the inequities, because you mentioned assessments in the 1940s. We're very well aware of them. It's like a dog's hind leg, this tax system, and you know what a dog's hind leg looks like: There are all kinds of twists and turns in it.

What this government is trying to do is balance the inequities across the province, and we're on a positive course on that. Yes, we are getting lots of criticism, but my astrologer friend there who was gazing at the stars and different things like that — no, we're gazing at fact and this is what we're trying to do: give equity across the board for people like yourselves all over the province, not just in one central core. This is what we're trying to do.

Mr Gerry Phillips (Scarborough-Agincourt): I appreciate the presentation. The challenge on the farm issue is this: The province used to fund the farm tax rebate, as you know; $165 million, $170 million out of the provincial revenue went for that. They are now transferring that to the municipalities and saying, "You pick up the $165 million or $170 million. We're wiping our hands of it," like that.

Here's the problem we run into, and I'd like your advice: AMO, the Association of Municipalities of Ontario, have blown the whistle and said: "Listen, this might be good policy but you're dumping it all on the property taxpayer. It is dumping provincial farm policy right on to the property taxpayer. You're wiping your hands of it and dumping it on to the hard-pressed, hardworking, taxpaying property taxpayers."

As a matter of fact, the Ontario Federation of Agriculture was in last week to present to us and raised this concern. They said they need some ironclad guarantees that the province isn't simply dumping on to the property taxpayers. So far we can't get that guarantee out of the government. What advice do you have for us in terms of making sure that this isn't simply a cost dumped on to, as I say, the hard-pressed property taxpayers?

Mr Zandstra: You see, the education tax has been removed from the system. I know there are other taxes like subsidized housing and welfare costs being added to the municipalities instead. But I believe, like I mentioned before, that at the local level we are much more able to control costs than when it just comes as a grant or a rebate. It's human nature: "The government pays for it anyway." You're not going to fight for the last dollar. If it comes out of your own pocket, you're going to fight. I know; I was a farmer and you're not parting with hard-earned money just like that. That's why I think we should give it a chance, see how it works out. I believe it's going to work out all right.

Mr Phillips: Do you think we should build a guarantee in, that the province — they've dumped about $1 billion on to property taxes — isn't going to dump another —

Mr Zandstra: I believe there is a slush fund for these emergencies.

Mr Phillips: No, that includes it. The association of municipalities has taken all that into account and it says they're dumping another $175 million on us.

Mr Zandstra: Of course, that's their perception.

Mr Phillips: I sort of trust them a bit.

Mr Zandstra: I believe that the general population will tell them where to cut the costs and where they can save. Maybe not all of it, but that is my way of looking at things.

Mr Phillips: Your advice to us is not to worry about the dumping of another $175 million on the property tax?

Mr Zandstra: I would not worry about it until the time comes.

Mr Phillips: Might it be too late then?

Mr Zandstra: I don't think so. We can change anything. Rebates can always be reinstated either at the farm or the municipal level if things go wrong but, like I said, I believe the common people have more control over expenses when it comes out of their pockets direct than when it comes from the government.

Mr Phillips: The Canadian Federation of Independent Business, a very well-regarded organization dealing with small business, has said overall property taxes on business will go up, small firms will be harder hit by the changes. In other words, the bill hits small business. That worries us, anyway, in the Liberal caucus. Does it concern you at all that small business is going to be hit disproportionately on this bill?

Mr Zandstra: I believe there is quite a bit of conjecture in this, what could happen. It may not happen. We should give it a chance and see how it develops. If there is hardship in any way, I believe the government is there to step in if it doesn't work out. Like I said, let's give it a chance and let the common people try to keep these costs under control so taxes will not increase.

Mr Phillips: You think we should ignore the Canadian Federation of Independent Business's concerns then?

Mr Zandstra: I couldn't answer that question, actually, because I have not studied this thing this far.

Mr Phillips: Well, we have.

The Chair: Thank you very much, Mr Zandstra, for coming in and taking the time to present to the committee. We appreciate it very much.

BRUNO'S CONTRACTING (THUNDER BAY) LTD

The Chair: We now welcome Bruno's Contracting Ltd, Mr Simperl. Welcome to the committee, sir. We have 20 minutes to spend together. If you'd like to make a presentation, we can fill any remaining time with questions.

Mr John Simperl: Thank you very much. Good morning, ladies and gentlemen. I would like to take the time to thank you for providing us the opportunity to come before you and speak on the proposed Bill 106 amendments. I won't take up very much time here this morning. There are just a few items I'd like to talk about.

First, I'd like to commend the government for taking the initiative to review the outdated and inconsistent property tax and assessment act. We've been for too long saddled with a very unfair and inequitable property tax valuation system and are looking forward to the proposed fair market value. It was very evident that the assessment valuation did not in any way represent a current market valuation, which makes it hard for the taxpayers to understand the assessments when they don't reflect the current value of their property. This also makes it hard to compete with similar businesses when taxed differently.

It's our understanding that the proposed changes will now reflect current market rates, presumably what a property was purchased for, which will be easier for taxpayers to understand. When they get their tax bill and they've just paid $100,000 for the property, that's what they're going to get taxed on, not $150,000 or some outdated valuation.

Second, the elimination of the business occupancy tax is seen as a plus, as most businesses really don't understand and didn't understand what the tax is for and why it's in place. This will be a significant plus for most small businesses, as they will no longer carry this additional operating burden.

Third, it was very difficult for some people to understand why they only had 21 days to appeal an assessment notice, when they actually didn't receive their tax bill until some time later. We believe by extending the deadline to March 31 annually, the appeal process by most citizens will be a much fairer position. They'll actually be able to see their assessment, see what tax amount they'll pay and then make a decision on appeals or what they're looking at. So they should be able to make a much better informed decision.

0940

Additionally, this simplified process will permit a significant number of complaints to be resolved through discussions between the ratepayer and the assessor. If, during the discussion, an agreement cannot be reached, the taxpayer still has the opportunity to make a formal appeal. We feel this process will significantly improve the relationship between the two. We, however, believe that the number of these appeals will decrease dramatically, as the process is far more equitable and clearer now. The assessor will have some more defined information to make a judgement upon and the decision as to what the property will be valued at will be quite clear if the gentleman has an appraisal or a current market valuation to make an assumption.

Additionally, this new simplified assessment appeal process should permit a much more cost-effective system, mainly because a lot of the appeals should be able to be resolved directly between the assessor and the ratepayer.

In closing — that's about all I have to say — we believe the proposed amendments will provide a much fairer and more equitable tax assessment. I thank you for giving me the opportunity to relay these ideas to you. We'll answer any questions you may have.

The Vice-Chair (Mr Tim Hudak): Thank you, Mr Simperl. That does leave us with some time for questions from all the parties, about six minutes each, as a matter of fact, beginning with the government side.

Ms Bassett: Thank you so much. I'm interested to hear your presentation. It's very favourable to where we're going. All of us have been saying for a long time that this had to happen. All three parties have one way or another realized what you say is true.

I want to follow up on the appeal process, because some people wonder that it won't be as easy. I was happy to hear you say that the appeal process will be greatly enhanced. You said you figured that the number of appeals will decrease. Do you have any idea of what the number of appeals is now in this area?

Mr Simperl: No, I'm not familiar with the exact number of appeals in this area. I know just about every year our company has a number of appeals ourselves, so we're basing it on our past experience.

Ms Bassett: Our understanding is that the appeal process will decrease radically after an initial bump, when people naturally would be questioning the new system.

Mr Simperl: Our position is that once you can sit down with the assessor and discuss the situation with him, because you're on a fair market value, if the gentleman has an appraisal or he just bought the property, that represents what the fair market is so it should be a lot clearer to him based on the assessed value of the property and what he's paying in taxes.

Mr Spina: Thank you, Mr Simperl, for your presentation. I had a question — and I know it will be coming from probably Mr Phillips or Mr Gravelle — and it has to do with the level of trust that business has with the municipal council. We've had a couple of expressions of

confidence in the city of Thunder Bay council, who apparently would like to have a 0% increase.

I'm looking for your level of confidence in the municipal government to try to create a system that when you combine the additional categories of property assessment, the options of variable tax rates — do you have confidence enough that the city of Thunder Bay will be able to balance that off so that businesses could be essentially neutral, particularly small businesses? What they may not have to pay in occupancy tax might come back as property assessment, which seems reasonable, but at least it would be equitable.

Mr Simperl: Yes, what we're looking at is an equitable system. I believe the municipal government, once they know all the parameters of exactly what they're dealing with, will be able to deal with it in a proper and efficient manner. I don't think there will be any injustices or variations where they're deemed to favour one position or the other. The city has to realize that the administration is there for the benefit of the citizens in the city and sure, at some points there might be inefficiencies because of downtown cores not operating to the extent they should be or a realignment of residential areas or commercial areas. I think they have to look at what is best for the city. Sure, there may have to be some variance or change in whether they charge for building permits or whether they charge you the fee and it's reimbursed after the building or structure is up in certain areas to attract more individuals or business to that specific area to make the city in itself more functional. I think the city council needs some of those parameters for it to deal effectively with the city itself and make it a lot more prosperous place, and beneficial.

Mr Spina: So is it fair to say, then, that if they really are concerned about a good, thriving business community, they will institute a formula that would be equitable so that the business can survive, as opposed to trying to run them into the ground, as was speculated by some fearmongers?

Mr Simperl: That's right. I think all businesses at one time or another need some kind of support, and if you're looking at most of the small businesses, people just want to be treated equitably with everybody else on that. They would like to know what their parameters are so they know how to work out what their operating costs are to survive.

Mr Phillips: Thank you very much for being here today and for your thoughtful comments. I appreciate it. The first issue is the business occupancy tax. Currently, as you know, it tends to be more heavily on big business than small business. This bill eliminates the business occupancy tax and, as virtually every municipality and business group believes, it will now be put back on to the realty tax for business. Every business group has told us that when you redistribute that equally, it will go more heavily on to small business, because small business pays a smaller percentage of business occupancy tax; when you redistribute it, it would be equal. That's no surprise. It is a matter of trust.

I believe what the Association of Municipalities of Ontario tells us. They say, "When this law passes, we'll have to and we will distribute it right across the board." So it will come as no surprise to anyone, this will take property tax up on small business, down on large business.

I just want to be clear that I understand. You still support the tax even though that's the outcome of it, because you believe it's a clear tax or a fair tax.

Mr Simperl: Yes, I believe it's a lot more equitable system. Unless I misread the information in the act, it's going to be distributed through all the property in the city, which would include residential as well. So you're looking at —

Mr Phillips: In theory you're right; in practice, nobody believes that's going to happen. What I'm trying to do is tell you what other witnesses have told us, so when it happens you're not surprised and you say, "I was there supporting it because I thought it was going to do one thing," when it's going to do another thing.

Mr Simperl: What I've done is made my presentation based on the information and what is said is going to be done on that. When you look at the broader base of the total taxable property in the city, it's a much fairer system for everybody to carry their own weight.

Mrs McLeod: I just want to understand. Your sense is that the municipality will get back the revenue that it has now lost by the province cancelling the business occupancy tax by distributing that same amount of money in taxing homeowners as well as business, so that basically the residential homeowner would pick up a chunk of what business was paying before.

Mr Simperl: That's correct.

Mrs McLeod: So your sense is that business tax would go down but homeowners' taxes would go up.

Mr Simperl: That's right.

0950

Mrs McLeod: I know one of the real concerns in this area is the fact that we haven't had any new home starts. The home starts have been flat for a very long time. Without any overall increase in taxes, just redistributing that lost revenue equally between homeowners and businesses and raising homeowners' taxes as a result, what would that do to the prospect for new home starts in the area?

Mr Simperl: In that respect, most people who are looking at new homes — and we are one of the larger residential land developers in the city as well as a home builder. What we've seen is that the biggest concern with people looking at new housing is job stability and security, and knowing what the costs are. One of the questions first thing when they buy a lot or look at the size of house we're putting on it is, "How much are the taxes?" because that's equated into their affordability price, based on wages and their other commitments.

It's our feeling that as long as they know that up front, it's not going to significantly affect the new home market at all. It should basically enhance it, because now they know they're being taxed at a fair market value — what they're paying for the house is what they're being taxed on — and everybody else in the city will be taxed equally. It's a little disconcerting to some people from new houses to older houses that when you get into some of the older areas, the taxes are significantly lower than a new residential subdivision. With this coming on board

now, it should flatten that out, where it's equally taxed for the people in older sections as in new ones.

Mrs McLeod: I'm not sure that's one of the outcomes. It would depend on an area, obviously. If you're living in the heart of Rosedale in an older house, there may be some shift of taxation towards those houses. I'm not sure it would be applicable here in some of our older areas.

Mr Michael Gravelle (Port Arthur): If I could just respond somewhat to what Mr Spina was saying in terms of, "Trust the municipalities," I don't think it's a question of trust. We've heard this at all the hearings, certainly last week on the libraries and the firefighters and everything else too, that municipalities will do their best to make sure everything evens out. The fact is that there's still a great deal of confusion. They have to regain the revenue they're going to lose. There is this gap in revenue in terms of the $1.5 billion, which certainly now our own mayor in Thunder Bay is quite quick to point out whenever he has the opportunity that there is a gap. There still is a great deal of information that people don't have in terms of what the downloading is going to be.

It's unfortunate that you view it as being something in terms of trusting the municipalities. It's more a question of their ability and the position they're being put in and not being able to necessarily do what they would do. I notice this pattern in terms of suggesting that there's this level of mistrust. It isn't that at all; it's literally their ability to handle what is going to obviously be a massive downloading. This is a somewhat separate part of that issue, but you've got to make up the revenue you lose. That's the concern.

Mr Pouliot: Good morning, John. How's business?

Mr Simperl: Fine so far.

Mr Pouliot: Good, good. When we talk about Bruno's Contracting, we're talking about a medium-sized business, right? I've followed your career throughout the years.

Mr Simperl: Yes, sir.

Mr Pouliot: We're going through the province — I thank you for your time and presentation — we listen to citizens pretty well a full day and then we travel to the next community and do the same. Some of the presenters represented municipalities: mayors, reeves, council members. Not one of them so far is of the opinion — when we ask them, "The 1998 taxes, residential, commercial, industrial, will they go up, will they stay the same or will they go down?" everyone says it will go up. The reason is simple. Because the government is giving a personal income tax break, the money has to come from someplace. They also have to tackle the deficit, so again, the money's coming up from the same place. We can't have it eight different ways here.

What they do is they try to convince people like myself to congratulate and yet blame the local council whenever anything happens. They're willing to take the hit in year two of their mandate, but in year three, "Don't come to me, go and see the local council." The local council will have all kinds of new responsibilities that they don't want or need. So the big people under Bill 106 will gain, right? Because you're rid of the occupancy tax, but it has to come out in the wash.

There's a $2-billion shortfall which is going to be made up by small business and residential and when we say we'll go to the local council and rely on their wisdom — you see, there are some local councils that will be asked on the one hand to look at the small business community and say, "Well, they just got a break; maybe we have the right," and they do, "to introduce a new tax because we need the money."

They'll see one small business person and then they'll see 500 houses on three different streets and they will come lobbying as well. It's the residential levy. They will be asked to make a choice because they are there to serve all citizens. The big ones got a break. You can't touch them, they are the untouchables. I don't know many of those people. They're on a first name basis with members of the government, but I'll leave it at that. I'm not here to criticize.

The ordinary people and the small are about to get it in the neck. This is what's going to happen, and I'll be here apologizing if I'm wrong: Bruno's Contracting in January next year, eight months from now, gets a tax bill from the city of Thunder Bay. It's called the interim tax levy. It's half of what you paid the year before. Then comes spring, a year from today, approximately a year, when you've got to make up the difference. Then, when you look at your tax bill, I ask you to compare it with the tax bill you're getting. It's going to come all at once.

You're going to get the downloading. You're going to pay for seniors, for drugs if people are on social assistance, 50% of it. You're not used to this. You're going to pay for the demographics, the aging population. I want you to know that. You'll still pay your education tax. You won't even get a bit of a tradeoff. The only thing you'll have is that in your case you'll have gotten a break by virtue of the development tax. The municipality is now going to pick up sewer and water, new subdivision. You're off the hook but someone has to pay. There is no secret formula here. Your mayor is saying, $15 million to $30 million. Where is that money going to come from?

As I thank you for your presentation, I would wish for all of us to have the bigger picture, all of it. We can't get the information from the government and we're are about nine months before there are 900,000 appeals that will be pending. There are 330,000 on the books now. They predict there'll be an additional 600,000. I want to wish you well, but please be vigilant. We want you to be in business.

It's very difficult to deal with under the veil of secrecy, committing a multitude of sins. I hope I'm not too bold or too strong, but I came there as a citizen quite naïve and candid, believing that they were going to march forward. They've organized a revolution. We all have to get together and organize a counterrevolution, because I don't feel that they are hands-on regarding this bill, so please be careful. I was fooled. I don't want you to be fooled. Thank you, sir.

The Chair: Thank you very much. We do appreciate your coming in to present to us, Mr Simperl.

I understand that Mr Guinn is here, but he is making a phone call. He'll be with us. Perhaps we could take a very brief recess. We're in recess for two or three minutes.

The committee recessed from 0958 to 1000.

NORTHWESTERN ONTARIO
SMALL BUSINESS ASSOCIATION

The Chair: We now welcome the Northwestern Ontario Small Business Association, Douglas Guinn. Welcome to the committee, sir. We have 20 minutes to spend together. I would ask you to introduce your associate for the purposes of Hansard.

Mr Douglas Guinn: This is Mark Lawrence. He's the treasurer with our association.

Mr Mark Lawrence: Our interest in this new legislation is twofold: First, we are interested in any legislation that will more fairly distribute the tax burden for our business community; and second, any improvement in the level of outdated assessed value throughout the province will mean an equalized tax burden for every resident in the province.

The elimination of the business occupancy tax is of particular interest to our membership since it has long been felt that this tax is a deterrent to business, and due to its arbitrary levies of from 25% to 75% based on the type of business, it has been considered an unfair and unequal tax.

Our initial interpretation of the new model seems to indicate that the annual municipal requirement for funding will be determined at the beginning of each fiscal budget year and then the required tax ratio applied to newly assessed property values in order to raise the necessary funds. This model will improve the existing model if cost savings are rewarded and a zero-based budget model is employed each year.

Further, as we understand it, all classes of property will share the tax burden equally based on assessed value alone and not on any other arbitrary indices. Given that the education tax component will be removed entirely from the residential responsibility and continued as a portion of the business responsibility, we are fearful that we might lose our grip on what the actual cost of education is to the business community.

With specific regard to the proposed changes, we would like to voice some opinions and concerns with what we consider to be our preliminary take on the proposed legislation:

That the new tax ratios be designed to tax the residential and the commercial-industrial sectors equally. We think it should limit the discretion of the municipalities with regard to the tax ratios so that certain areas of the city are not taxed to the benefit of other areas of the city, nor that the municipality be allowed to affect the equity between business and residential tax burdens through a wide variety of tax ratios that might benefit one sector over the other.

That a user-pay system be implemented for such services as garbage collection and that the amount of these levies be removed from taxes.

That landlords be required to disclose to their tenants the amount of apportioned municipal tax within blended rents and that landlords be allowed to increase rents by the amount of any future tax increases regardless of the strictures imposed by existing long-term leases.

The level and amount of the new education levy should be disclosed separately on the business tax bill. As well, an indication should be made as to the level of total education funding required for the year for this city, together with the amount the province will be paying expressed as a percentage of the total municipal education funding requirement for the current year, that is, are we sharing the cost 50-50, 60-40, that sort of thing.

Consideration should be given to financing major infrastructure projects and other capital expenditures through a type of funding vehicle found in the United States. Municipal bonds are issued by the municipality for the amount of the capital required and the interest received by the holder of these bonds is tax-free in their hands. While the tax issue may need some assistance from the federal government, this form of financing allows the municipality to borrow at a low cost and allows a tax-free return for the bondholder.

We agree that conservation lands should not be taxed, but further we recommend that consideration be given to not taxing municipal property such as parking garages, since the added costs result in higher fees for parking and other user fees. Further, we think consideration should be given to broadening the requirement of churches to pay taxes on their entire realty holdings, not just the rectories and manses etc. Consideration should also be given to including off-reserve native realty holdings that are located in areas under municipal jurisdiction and receiving municipal services.

We continue to oppose government grants for business. We also take exception to the government-sponsored education programs to foreign countries, where our resources, both financial and human, are being applied in the training of our future competition. These resources could be applied here at home for our own residents and entrepreneurs.

Vacant land and vacant premises should have preferred status under the new model of ratios. Reduce the tax on vacant land until the owner has built a building or otherwise created a means to generate income from the property.

I include another section, just other aspects we would like to consider:

Taxation should be related to business activity, and to this end and in view of the increasing difficulty being encountered by small business, we feel consideration should be given to assisting small businesses with their tax burden in bad years through the existing Ontario tax credit system. When the small business owner files his federal and provincial tax return, the amount of his business property tax could be included as part of the input on the existing Ontario tax credit form. The credit will directly benefit those with low incomes and will be similar to allowances in place for the residential taxpayers on low incomes.

We feel the intent of this, and all legislation, should be proactive and encourage and support the formation and continuation of business, with as few bureaucratic and legislative restrictions as possible. We feel the best overall equalizer is a free and unencumbered market.

Based on the numbers we have obtained, the current level of education funding being carried by the residential ratepayers will go a long way towards paying for the downloaded social spending the municipalities are

required to pay for when the province assumes responsibility for education funding.

Municipalities should be restricted in the number of tax classes they can establish under the new model. Fewer classifications mean a more equitable distribution of the tax burden and continued emphasis on spending reductions, rather than tax increases.

Perhaps the flexibility municipalities need during the adoption of the new model could be achieved by allowing a temporary, say a three-year, period of additional transitional tax ratios to bridge the gaps for funding requirements.

In conclusion, I would like to thank this committee for allowing us to make our views known and that our association is in favour of the intent and spirit of this legislation. The tax system has needed fresh thinking for many years, an impression that has been borne out by many surveys and government studies in the past. We believe the new model will generate the required funding in a more equitable and fairer way, and that the impact of the reassessment of our real estate will not unduly burden either the residential or commercial-industrial sectors negatively or disproportionately. Thank you.

The Chair: Thank you very much. That leaves about four minutes per caucus for questions. We start with the official opposition.

Mr Phillips: I appreciate the views of the small business association and thank you for the work you do on behalf of the small businesses.

Everybody agrees there's a need for change. That's not debatable. It's just whether this bill does more harm than good, or whether it does unnecessary harm. What we're worried about in our caucus is the impact on small business.

The Canadian Federation of Independent Business has watched this bill for some time, and as they look at the bill and its outcome, they say, "Ironically, it is likely that the elimination of the business occupancy tax will harm our sector, will increase taxes on small business."

I know you mention in here even vacant land, or vacant building and land. This dramatically takes the taxes up on them, by the way; I will just tell you that right at the start. But if it were the case that the result of this bill, for whatever reason, was to shift the burden from larger business to smaller business, would you still support the bill or would you think we would need to make some changes in it?

Mr Lawrence: Based on the provisions for different ratios, I think that shouldn't happen. We want it to be shared equally and not pay more than we're paying now.

Mr Phillips: I know this bill a bit just because I've got some time to study it, but the ratios simply say: "Here's what business currently is paying in our community," whatever community it is. "It can't go above that ratio." But every municipality has said, "We are going to redistribute the taxes against that business sector."

As you well know, the business occupancy tax ranges from 75% to 30%. It will average 42%, so anybody paying less than 42% will pay more; anybody paying more than that will pay less. That's the way the bill is structured. We believe there will be a natural outcome of this bill and the federation of independent business feels there will be, unless there are changes made to it. If it were the case that in your community the larger businesses would pay less and smaller businesses more, should we be trying to change the bill or would you say that's acceptable because it allocates taxes across the business class regardless of size?

1010

Mr Lawrence: It's supposedly not going to impact negatively on existing taxes that are being paid now, so if the small sector is paying X number of dollars, they should still pay X number of dollars, and the ratio should be adjusted accordingly if that's not going to happen.

Mr Phillips: Okay, because right now, the bill, if it passes as it is —

Mr Lawrence: No sector should be impacted negatively or more disproportionately than they are now. We're willing to pay our existing level of tax, although we want spending reductions and lower taxes of course, but each sector should not be paying less than they are now.

Mr Phillips: Okay. Then we'll have to look at some amendments to the bill.

My second question, and we haven't debated this enough at committee, is that the way the bill is written right now, it calls for assessing a property on the basis not of its current use but on the basis of the value if it were sold. That's quite a change from what the Who Does What panel recommended.

Many of my business friends are worried about that because they say: "I have a business and right now my property has a value compared to other similar businesses, but I'm located in an area where if I sell it on the market it would be used for a different use and a much higher value." It will be assessed on the basis of, "Current value is the amount of money a parcel of property would realize"—property being land and building—"if sold at arm's length by a willing seller to a willing buyer," not at what it's actually worth, but at what it would sell for on the market.

Some people are worried about that, because they say: "I have a retail business in a community where I'm assessed at the use compared to other similar retail businesses, but I'm in an area where if I sold it, the value of the land could go up dramatically. I'm going to be assessed at that and I'm going to be forced to sell." Has your organization looked at that, and do you have a view on that at all?

Mr Lawrence: We're of the opinion that the current market value would be the fairer value. We haven't seen any situations where the opposite would be true. On the other hand, he could have a thriving business in a lower-value area and realize a higher return, even though his assessed value is lower. We're going to let the market value sort of determine that's the true value of his business.

On the other hand, I've seen situations where we're all lumped together. Say, for instance, a vacant piece of land is assessed higher than its selling price. We also feel that if the property or the business is sold in an arm's-length transaction, that that be included in their values to reduce the taxes. We've seen cases where properties, even vacant land, have sold below the assessed value.

Mr Pouliot: Gentlemen, thank you. I'm intrigued by some parts of your presentation, although I welcome it. On your page 2, "That a user-pay system be implemented for such services as garbage collection," you say "such services" and as one example you point out garbage collection. That would be a levy that would be imposed by the municipality, I take it.

Mr Lawrence: Yes. Something like the per-bag stickers. We haven't really determined the mechanism, but that sort of thing. People who are using the service more would pay more and it would be withdrawn from the average, general assessment.

Mr Pouliot: But the big-ticket items such as schools, including post-secondary, and hospitals are not included in the user fee, are they?

Mr Lawrence: No. That was the only thing I could think of at the time, that type of service.

Mr Pouliot: But given time, since you used the plural, you would have thought of others.

Item 6, "Municipal bonds are issued by the municipality for the amount of the capital required, and the interest received by the holder of these bonds is tax free." You've given a lot of thought to that.

Mr Lawrence: It's a very successful system in the United States. It allows the people of the community to invest in their community and receive that income tax-free.

Mr Pouliot: So the approach here would be that if you issue a bond or a debenture tax-free, you would issue it at a lower rate.

Mr Lawrence: Right. Exactly.

Mr Pouliot: And the municipality would do that?

Mr Lawrence: In the States that's the way it is, yes.

Mr Pouliot: Are you talking in terms of a coupon bond or a strip bond?

Mr Lawrence: I don't know exactly how the system is set up, but I would say probably a coupon or some sort of system where they submit their coupons and get their interest.

Mr Pouliot: Okay, so you're talking about both the residual and they would pay every six months or every year, whatever.

Mr Lawrence: Right.

Mr Pouliot: Who would determine the amount that they could issue, that they could float?

Mr Lawrence: I'm not sure how it works, but I would imagine there would be some provincial guidelines on that. From my experience it's been used to fund sewer and water infrastructure, commercial office buildings for doctors, medical situations.

Mr Pouliot: But surely there would have to be an authority that decides how much they can float in the marketplace. If a municipality is in debt, the bond rating agencies would demand a premium in order to recommend their bonds, right?

Mr Lawrence: It would take probably the same structure as the current provincial system where the rate is based on the rating.

Mr Pouliot: They would be competing directly with other borrowing authorities such as the province of Ontario.

Mr Lawrence: Right.

Mr Spina: Gentlemen, good to see you again. Thank you for a well-researched presentation, because you cover a number of areas and touch on most or all of the real key issues relating to small business.

I just wanted to assure you — on page 3 it says, "We continue to oppose government grants for business." You know, sir, this province can tell you they are gone.

Mr Lawrence: Yes, and we agree.

Mr Spina: I wanted to get back to the argument that my friends in the opposition here keep bringing up, and that is the concern of the CFIB with regard to small businesses being unfairly taxed as opposed to large businesses which will get a break. I didn't know whether you were aware that there are a couple of elements with regard to the municipal power in setting tax policy; that is, in setting the tax rates, municipalities will be required to follow provincially set tax ratio ranges. I don't know if you're aware of that. Furthermore, it says, "For 1998, the Ministry of Finance will determine the transition ratios" or the starting ratios for those tax rates. "The transition ratios are the actual ratios that exist as of January 1, 1998, and are based on the effective tax rate for each property class."

You indicated you were concerned that there would be too many class categories, particularly with business. I think if you look at the bill closely, you'll see that they go from the current four to a maximum of six. The municipality does have flexibility with these tax ratio ranges to vary the tax rate within each of those categories. Again, there's a limit by which they can wrestle with that because it has to be within a certain range of the existing ratios.

We are quite confident that there is sufficient guideline, or defence perhaps, to reduce the opportunity for the municipalities to, shall we say, put the blocks to small business and increase their taxes substantially. Removing the BOT, we're hoping and trusting that because of these ratios it will be able to remain at a reasonably consistent level. It's just a shift; instead of writing two cheques, you write one.

The big businesses may or may not benefit from this, but at least the municipality will have, in the back of its mind, I would think — and please tell me if you disagree — the fact that if it's paying a 75% rate now, that will continue to exist. The difference is that instead of a BOT, it will be all in their realty tax.

Mr Lawrence: That was our understanding, that we wouldn't be any worse off and that the taxes would be blended basically into one tax based on assessed value with the municipality adjusting their requirements by the ratios. All we want to make sure is that this is monitored and we aren't going to be penalized.

1020

Mr Phillips: That's factually incorrect. I think we should get clarification on that before we finish.

The Chair: Are you raising a point of order, Mr Phillips?

Mr Phillips: Yes. What Mr Spina said there is factually incorrect. If one of us is wrong and if I've misinterpreted the bill, I want to know that. I think what he just said is factually incorrect.

The Chair: Perhaps we could ask for clarification from the research officer.

Mr Phillips: Good.

Mr Spina: My quotes, Chair, came from the presentation that was done by the staff to our committee on the very first day that we began the public hearings.

Mr Phillips: What they said was that the commercial sector will be given —

The Chair: I'm sorry, this debate is not appropriate at this time.

Mr Phillips: Sorry.

Mr Spina: It's not fair to take up their time.

The Chair: I think when we get to clause-by-clause you can have a good go at this.

Mr Pouliot: I agree with Mr Phillips, so that's 2 to 1.

The Chair: Mr Spina, you were finished your questioning?

Mr Spina: Yes, I'm finished, thank you.

The Chair: Did you have a response to Mr Spina?

Mr Lawrence: Just to make sure I had my point made. Under the new model, at least the way we see it, we don't think we're going to be any worse off. Each sector will pay basically the same amount of tax on a blended rate, rather than the two separate taxes as they are now. We just wanted to make sure the municipality didn't have too much freedom in adjusting the ratios so that they could gain more revenue out of one section of the city versus another section. If this is going to be monitored, then that should be revisited from time to time to make sure that doesn't happen.

The Chair: Did you have a brief question, Mr Brown?

Mr Jim Brown (Scarborough West): Very brief. Just a short preamble about my NDP colleague Mr Pouliot, who was talking about coupon bonds and strip bonds. He sounds so much like a banker, I'm very impressed.

The tax-free municipal bonds work very well in the States. I guess one of the things that controls both the amount that's being borrowed and the interest rate is the market. The municipality would of course like to get the cheapest cost of capital and finance the most possible. I think you envision that as giving more autonomy to the municipality, where if the municipality wanted to do some infrastructure it wouldn't have to rely on the provincial bureaucracy to grant them some money for capital cost.

Mr Lawrence: Right. Our understanding is that the local municipality would have a better handle on the local need and the ability to pay. The market can include insurance companies that buy these types of instruments. They're not going to overburden the municipality with debt, because they still want to get paid; even though it is tax-free, they still have responsibilities to people who have invested the money through them. We thought the local level would have a better handle on what's required and would be better able to determine what they're willing to pay and at what rate they can afford to pay it.

The Chair: Thank you very much, Mr Lawrence, Mr Guinn. We appreciate your coming in and making a presentation today.

JIM DOHERTY

The Chair: We now welcome Jim Doherty. Welcome to the standing committee on finance and economic affairs.

Mr Jim Doherty: Thank you very much, Mr Chairman, committee members. I'd like to begin by thanking the committee for this opportunity to make a presentation on the Fair Municipal Finance Act, 1997, Bill 106.

As an aside, I was able to access the Ontario Legislature Web site to get a copy of the bill, and I'd like to compliment the Legislature on the quality of their Web site and the amount of material that's available. It certainly allowed me to very quickly get a copy of the bill, print it off, download it, and I really appreciate that opportunity. I urge the Legislature to continue to expand that Web site. It certainly makes the democratic process much more available to citizens who are able to get on the Internet.

Furthermore, as far as computers and such, I noticed on my last reading that any spelling mistakes are the fault of my spellchecker. I think Microsoft Office and Mr Gates should take responsibility for that, but I will make a few corrections as we go through.

The introduction of this bill comes at a time when my city is facing some very serious problems in its downtown core areas.

My name is Jim Doherty, and I am firstly a taxpayer and concerned citizen who resides in the city of Thunder Bay. Secondly, I am the president of the Ontario Progressive Conservative Party Port Arthur riding association. I was born in Thunder Bay, or rather in Fort William, and I have resided here for most of my life. It is my fond hope that my daughter will be able to continue to live and work in this city. However, my hope for my daughter will only be possible if my whole city is a viable and thriving entity. I believe that the Fair Municipal Finances Act, 1997, will make it possible for her to grow up and earn a living in her home town.

I do not speak as an expert on taxation and assessment, but I am an expert at paying taxes. I pay taxes in every form imaginable on a daily basis and have done so for all of my working life, some 27 years. Sometimes I am amazed at the percentage of income I pay in taxes. I often wonder why I bother to keep on working if it is just to pay more taxes. However, I suppose my lot in life is to be an expert at paying taxes, and that is a cross I must bear.

Thunder Bay has been using market value as the basis for municipal assessment for a number of years. Some municipal taxpayers have seen reductions in their municipal taxes, but other municipal taxpayers did suffer from sticker shock when the new system was put into place. A Thunder Bay family I know that operates a small restaurant and who are personal friends of my family saw a rise of some 2.5 times in their property and business taxes when the market value system of taxation came to Thunder Bay. This instantaneous and very large rate of rise was a great hardship. My friends' restaurant survived, but only at the cost of great stress, strain and very long and hard hours. The phase-in period for tax increases and decreases that is incorporated into Bill 106 should alleviate this very serious concern. I see this phase-in period as an example of a well-crafted piece of legislation that will bring equitable municipal taxation to all Ontario municipalities.

Through my position as the PCPO riding association president, I have recently discussed the current problems

that exist with the municipal tax structure with a city councillor and some small business owners. The city councillor explained to me that the possible closure of the Eaton's department store in the downtown Port Arthur core could impact very severely on the remaining retail operators that have relied on Eaton's to act as an anchor store for that downtown core.

Bill 106 will give Thunder Bay city councillors the tools they need to deal with the situation by allowing for different tax rates for the struggling downtown cores versus the burgeoning intercity area. At this point in time the city cannot vary the commercial tax rate to suit the conditions in various parts of the city. There are many examples of cities that have allowed the core areas to deteriorate at the expense of suburban or, in this case, intercity zones. My city as a whole will suffer if this is allowed to occur, and I think the passage of Bill 106 will help to prevent just such a decline.

I have also been very fortunate to be able to discuss the downtown core situation with two friends who operate a very valuable retail business in the Port Arthur downtown. I use the term "valuable" in that their small shop acts as a magnet for many consumers, be they local shoppers or visiting tourists. I urge the committee members who are aficionados of fine antiques at reasonable prices to visit their shop and others like it while you are visiting our city.

1030

My two friends are very active in their business improvement association and the Heart of the Harbour event. The existing rigidity in the municipal tax system impacts directly on their business and on their efforts within the BIA to keep the Port Arthur core alive and well. If the core declines, their livelihood will decline and our city will lose them as entrepreneurs and commercial taxpayers. The city will thus also lose one more reason for tourists to stay and spend in our city. I believe this type of trend is known as a vicious circle: Decline begets deterioration, which in turn fuels further decline and deterioration.

Our city council cannot at this point come to the aid of these two entrepreneurs with tax-rate or assessment relief. The passage of Bill 106 will rectify this situation. Therefore, I urge committee members to work to ensure the speedy passage and implementation of Bill 106, the Fair Municipal Finance Act, 1997.

Thank you very much for your time. I hope my short presentation will be of service to you when you are deliberating on this legislation.

The Chair: Thank you very much. That leaves us with about four minutes per caucus for questions. We begin with the third party.

Mr Pouliot: Thank you, Mr Doherty. You speak from the heart, as you see things, and you're an expert taxpayer.

Mr Doherty: Yes. I'm the bottom end of the feeding chain. I pay all the taxes.

Mr Pouliot: Yes, indeed. You're from Thunder Bay?

Mr Doherty: Yes, I am.

Mr Pouliot: My father used to tell me that an expert is someone who comes from out of town, but I guess you can be an expert and pay taxes in Thunder Bay.

Mr Doherty: I've heard a different definition too. I've heard an "ex" is a has-been and a "spurt" is a drip under pressure.

Mr Pouliot: I need your help further. On page 2 of your presentation, "The phase-in period for tax increases and decreases that is incorporated into Bill 106 should alleviate this...serious concern," the concern being that there not be any dislocation. In the event that a municipality needs money, a 20-minute meeting of council, including the resolution, would get rid of the phase-in. If I need money to pay people who pick up the garbage, to pay the fire people, for sewer and water, I need the money tout de suite. I don't have the facility to wait five, six, seven or eight years.

The irony of it is that people who have been paying too much will be pressuring their council and saying, "I want my break now," and people who are deemed to be paying too little will say, "I want it delayed as long as possible." Council, in its wisdom, will have to decree.

Our understanding — and you're an expert taxpayer — from reading this bill is that when we include the new responsibilities, the tradeoffs and the tax break for the business occupancy tax, simply put, the money will have to be found somewhere. All the reeves and mayors and council members in municipalities throughout the province are saying, "Our taxes are likely to go up."

You, first as a taxpayer and second as the president of the riding association — but I will not approach that; you're here as a taxpayer — will be hard-pressed to support this legislation, because you make your plea on having been devastated by the taxes, and you conveniently bring your daughter into it, whom you love very dearly and very much.

Mr Doherty: Absolutely.

Mr Pouliot: Okay, and that's fair, that's great; that's the essence of life, the community spirit etc. If your property taxes go up or your business taxes go up, will you support this document?

Mr Doherty: From what I've seen of our city council, they have done very well by me as a taxpayer. I believe they have managed to keep zero tax increases, for the most part, going through. They've run a very fine administration. I'm fully confident that with the rules and regulations that come with this bill they will be able to protect me.

Mr Pouliot: But you see, they have to find $15 million to $30 million in one year. That's going to be very hard for them. They'll be looking for that cheque in the mail.

The Chair: If we turn to the government side, Mr Rollins.

Mr Rollins: Thanks for your presentation. Like a lot of us, I think we've all paid our fair share of taxes over time. I see in here that Thunder Bay readjusted to market value assessment — what? — two years ago?

Mr Doherty: No, I think Thunder Bay's been at it for quite some time, about 15 years, I believe. When it first started coming through we were about three or four years behind, but we have been on it for quite some time.

Mr Rollins: Are they raising those adjustments each year to revalue up to current value assessment?

Mr Doherty: I believe right at the moment we're on 1993. I think we've just had a new reassessment that came through to 1993.

Mr Rollins: So you're three or four years behind, but probably further ahead than many parts of the province.

Mr Doherty: Yes. Like I say, I think we've gone through the pain of readjustment, and under the old system there was a lot of pain. My friends in their restaurant were just shocked and dismayed that their taxes went from something like $3,000 to $8,000.

Mr Rollins: You mentioned here your friend in the restaurant business had two and a half times. Were they one of the fortunate people for a long time paying an extremely low tax?

Mr Doherty: That would appear to be the case. They were in a residential section of the city that hadn't been reassessed for some time. Then, when the level playing field was put forward with current market value assessment, they were really hit because they weren't in the downtown core.

Mr Rollins: Did you have any friends who were rich friends, like friends with Mr Pouliot, who were paying a lot of taxes and theirs were decreased?

Mr Doherty: No, I don't have too many rich friends.

Mr Rollins: Thank you very much for your presentation.

Mr Ford: I know where you're coming from when you're talking high taxes and small businesses and aficionados and antiques. I'm sort of a collector myself and I know the difficulties that some of these people run into with the taxes not being equal across the whole spectrum of Ontario. This is what this government is trying to do, get equity across the board.

I notice you're talking about the downtown areas. Right across the province, every medium to major city has these problems with the downtown core, because they attract certain people and some of these people aren't everyday types who go out with lunch bucket and brown bag and briefcase, but they work and sometimes they get laid off because of their professions. These are the difficulties we've run into across this province and this is what this government is trying to straighten out, and I mentioned this before, to get equality across the board in the province.

When you start talking about small business owners, which I have been part of, I understand the difficulties, that this happens. But I don't knock big business, because a lot of small business feeds off large companies. I just wanted to make that point, sir.

Mr Phillips: Thank you very much for being here. What I want to try and do is to avoid your friends being disappointed in you, because every business group that has come before us, without exception, has said — because right now the bill does not mandate what you want, which is the two classes of commercial. As a matter of fact, every business group says, "Don't do that," so I suspect the government won't do that. I don't want to have you embarrassed with your friends when the government doesn't do that.

If this bill in the end didn't permit what you want, which is an opportunity for a lower tax on some of the businesses downtown, would you still think it's a good bill or would you think we should try and build what you want into the bill?

Mr Doherty: What I understand is this bill does allow about six different classes of taxation.

Mr Phillips: One commercial class.

Mr Doherty: What I also understand is that it will allow the municipality to have differential tax rates in various parts of the city. If I'm wrong in that assumption, then — they certainly do need it. If that's a required amendment, I would certainly like to see it go through.

Mr Phillips: You think they should go against all the business groups' advice and permit that. But right now the bill does not mandate that. You have to apply, and the minister may or may not. All the advice we're getting from the business community is, "Don't do it." Do you think we should have that built into the bill, that the minister must, when a local council applies, grant that? Because it looks right now that the business community doesn't want it done.

1040

Mr Doherty: I really can only speak for my friends who have businesses and what had happened to them under this. I can only speak as a residential taxpayer. I don't think I'm really qualified to speak on the intricacies of what will occur in this as far as business legislation goes.

Mr Phillips: The second thing is, you were probably sitting here when one of the government members explained how the tax ratios work.

Mr Doherty: Yes.

Mr Phillips: I have a different interpretation that I'll give, because he gave his. The way it works in the bill is that a municipality raises a certain amount of money from the commercial sector. They will be allowed to raise that amount of money the next year, in simple terms. But if somebody's paying a business occupancy tax at 75%, they're going to pay a lot less. That's the way the bill works. Somebody paying 30% business occupancy tax will pay more. That's the way the bill works.

Again I ask, just because I know you're going to have to defend this to your friends, according to your presentation, if the result of this bill was that those paying the 75% business occupancy tax got a nice tax cut — and they'll thank the government for that — but the people paying the 30% got a fairly substantial increase in tax, would you still think the bill should be put together that way?

Mr Doherty: But I understand that going from four classes to six classes will adjust for those inequities. That's what I've been told.

Mr Phillips: No. They will give Thunder Bay, as soon as they get all the tax rolls and their tax ratio — they'll take all the property tax paid by the commercial sector in 1996, move it into 1997 and say, "You can't go above that amount of money, adjusted." So Thunder Bay's going to have to say: "All right. We've still got to raise that amount of money, but the one paying the high business occupancy tax will pay less. The one paying less business occupancy tax will pay more." They're going to still raise the same amount of money, but the tax ratios will be determined on the basis of 1996 commercial assessment. If that resulted in small businesses paying

more taxes and large ones paying less, that's still okay with you?

Mr Doherty: From what I understand, that's not going to happen. From what I understand, the different classes will take care of those adjustments and allow municipalities to recover the lost business occupancy tax —

Mr Phillips: We may not have enough time, but I'll talk to you later about that because I have a different interpretation of the bill. Let's be charitable there.

Mr Doherty: Undoubtedly, yes.

Mr Phillips: I think I may be right, but they think they're right. You should be clear on it, just so you don't get in a position of supporting something and then finding that it's a little bit different than you thought.

The Chair: Thank you very much. We appreciate your coming in, Mr Doherty, making a presentation to us and taking the time.

DOWNTOWN HEART OF THE HARBOUR BUSINESS INPROVEMENT AREA

The Chair: We now have the Downtown Heart of the Harbour, Mr Simonaitis. Welcome to the standing committee on finance and economic affairs, sir.

Mr Mario Simonaitis: My name is Mario Simonaitis. I'm the chairman of the Downtown Heart of the Harbour BIA. I have forwarded you a letter for your perusal, along with some information concerning our concerns at Downtown Heart of the Harbour. If you haven't had a chance to read it, I'll read it for you. This is concerning Bill 106.

Bill 106 will enable local municipalities to set their own mill rates. Referral to the commercial tax assessments based on 1996 public school rates — we have attached assessments in our downtown in the Thunder Bay areas, through all the areas, for you right there so you can look at it. It'll show that Thunder Bay's two downtown cores, the main cores, the town centres and the north core specifically are paying significantly higher taxes than the intercity area, an area which is zoned industrial and one that has been consistently favoured with zoning changes for commercial development over the last few years. Our city planners have made these zoning changes and amendments in our light industrial areas to allow for new commercial development and office relocation, I may say with little consideration for the resulting negative economic impact and decimation of our downtown core areas.

These zoning changes have resulted in an inequity in tax assessment. Areas which are enjoying new construction and economic growth are paying lower taxes — as you'll see on the sheet here, and I'll take you through that — than the established core areas. The downtown areas have supported the city with high tax payments for years and are now looking at a reduction in their services.

The core areas represent the social and economic heart of the city and we must ensure their survival. High taxes and a dwindling tax base, along with greatly diminished appraisal values, create hardship for the land owners and, in turn, the tenants. Many buildings in the downtown areas have been up for sale for years. The result is a decaying core area in our downtown cores. Our downtowns need to get the revitalization process jump-started, and we're looking to the government to initiate that, and give the land owners a much-needed tax break. The city of Thunder Bay needs a revised assessment that will take the recent planning and zoning changes and their dire consequences into consideration.

Bill 106, we believe, will put the responsibility for tax assessment in the core areas squarely on the shoulders of those who have engineered their decline. Business people and developers will be able to take their tax concerns directly to the publicly elected officials of city and have them addressed and dealt with, instead of the city blaming the province. We'd like to let the voters decide on this. Thank you.

The Chair: Thank you very much. That leaves us about five minutes per caucus for questions and we begin with the government side. Are there any questions from the government side? Shall we move to the opposition?

Mr Phillips: Thank you. I appreciate the work you do, and my colleagues tell me good work too. I just want to understand your belief in this bill. Is virtually your concern about what your properties are assessed at and the assessed value and therefore you think that moving the assessment function from the province to the municipalities will help you?

Mr Simonaitis: That's my belief. I feel that moving the assessment to the municipality would give them direct control of what happens on a year-to-year or so basis. We feel that the decline of the downtown cores is probably one of the major concerns throughout the country. I think if the municipalities have control with the tax assessments in those areas, they would be able to better address the issue and to change it. It makes it more of a level playing field for all parties so people in the downtown cores can get a tax break, put up façades, get something happening, revitalize the cores.

Mr Phillips: The intent of the bill, I might say, is to use a uniform assessment across the province, so the intent of it is to not permit local deviations. Again, the business groups we've talked to all say, "Listen, we need a common thread."

The bill also requires the assessors to assess the property at the basis on which it could be sold in the marketplace, not on the basis of its value and existing use. Has your organization had a chance to look at that and do you have an opinion on whether —

Mr Simonaitis: We've looked at it and my opinion is, if you base it on what it could be sold at, that says that there's potential in the areas and here's what's happening. There's a basis for that, so I don't see any concerns from our part as far as what it could be sold as.

Mr Phillips: Some organizations are extremely worried about that, but I gather you're not. The funding of the BIA, how is that funded? Is that off business occupancy?

Mr Simonaitis: Yes. The downtown businesses are assessed a levy through the city and that levy is what we use as a basis for our funding.

Mr Phillips: And it's off the business occupancy tax?

Mr Simonaitis: Yes.

1050

Mr Phillips: The CFIB and other business groups are concerned as the business occupancy tax goes — every-

body believes it's an obsolete tax that has to be changed, but as it goes, they're worried, as they say, that the remedy may be worse than the disease in that it looks like it will penalize small business and reward larger businesses. Does your organization have any concerns about that?

Mr Simonaitis: I think our small businesses, speaking from our downtown core, have been penalized. If you look at the rates of assessment and the taxes that we pay, just a small downtown core, the Port Arthur core — that's Downtown Heart of the Harbour — pays a total tax of $3.374 million as compared to — if you've been around the city — the intercity area, including Wal-Mart and so on and so forth, which pays $2.7 million. So we've been penalized as it stands over the last few years.

Mr Phillips: Right. You do know that chains pay a higher business occupancy tax than independents. Wal-Mart would pay a higher business occupancy tax than an independent. So when that's gone, it does redistribute it.

Mr Simonaitis: They may pay a higher business tax, like a Wal-Mart in that area, but I'm looking at the total package. We're looking at getting people back to the downtown cores. Wal-Marts don't add any character to any city that I know of.

Mr Phillips: My concern is that the business occupancy tax right now, when you get rid of it and you redistribute it on to existing businesses, does change and that a chain will pay less and an independent will pay more. But I'm just trying to get from you advice for us on whether we should be worried about that and trying to find some way of amending the bill to take that into account, to provide some relief for smaller businesses.

Mr Simonaitis: That's our main concern and I'm not sure how to approach that. With Bill 106, if it addresses that, I think our business community, again speaking from the Downtown Heart of the Harbour, is just looking for a level playing field. I think if people look at that and the government looks at providing a level playing field, we'll be able to handle it in the business community. We've been survivors up to now, so we don't mind competition. As long as it's a level playing field, we'll deal with it.

Mr Pouliot: Thank you kindly. Listening to presentation after presentation, there are words that I've become accustomed to on account of people say them often and they say them with all the sincerity at their command. One of them is, "Our situation is unique." Another is: "Don't get me wrong. I'm not opposed to paying taxes, but I want a fair shake at it."

As we see that, we compare our situation vis-à-vis that of another, not unlike property. We in the opposition see no difference between current value assessment, market value assessment, actual value assessment. The bottom line is, it's called assessment. It's the assessed value of a property vis-à-vis another within a certain vicinity at one time.

In your case, you're fairly current. The assessment took place so we can't expect too many peaks and valleys, but what you can expect under the proposed legislation is a shift. It's a given that the bigger you are, the more benefit you will extract from the business occupancy tax. If you're a huge bank tower and you occupy so many thousand square feet, if you're a big industrial, if you're a big retailer, if you're a large hotel operator, if you're a significant apartment building owner, those are the people who benefit. The people who will pay will be those who are the victims of the shifts. There will be winners; there will be losers.

On top of it, you don't have a revenue-neutral situation. It will cost more for municipalities to operate in the future than it does at present because they're taking on new responsibilities. At the residential level you get a break because you no longer have to pay school levy, education levy. But let's make no mistake about this. All the municipalities that we've met so far, when asked, "Are your taxes going to stay the same, go up or go down?" inevitably people have said, "They will go up." Then council will have to make the decision what apportionment, what application can they make to pick up the slack. If a tax is reduced, they'll make an application, they'll establish a sideshow to go and get a new levy. They won't be able to do it; they don't have the same flexibility as the big ones. Then they will have to count heads, especially when the writs are issued close to the election, how many business people, big business, small business and residential. They will do that expeditiously.

What I'm afraid will happen here is that after the interim tax levy has been done in 1998 and all the changes — in some cases a new assessment comes up by April 1998 and the new fiscal responsibilities begin January 1998. With the difference in the fiscal year, is you'll have a very short transition time to go from one system to a significantly different one. You won't have your interim tax levy flexibility, because we're talking about past years. You will have one big adjustment come a year from today, in the spring of 1998. There is no flexibility given in the legislation to cushion. What you will have is peaks and valleys and you will have a distortion, and also in some cases — hopefully there won't be too many — you'll have dislocation by virtue of a tax literally doubling on some entity.

People should brace for this. I'm not here to sell fear, but you cannot come up with $5.4-billion reduction in the PIT over four instalments — the third one coming up. You cannot reconcile an $11-billion deficit and assume $3 billion of lack of transfers from the federal government without downloading on the next common denominator, which is the municipalities, and the municipalities will pass the buck to the final entity. I certainly hope I'm wrong, but it just, in my humble opinion, does not add up. There's only so much in the system.

I don't meet anyone who is not opposed to change. We know that the BOT, the business occupancy tax, is no good, but I feel the government is overestimating society's capacity for changes. You are too nice — and I was like you at one time — to tell that lot there to put the brakes on, exercise the same determination. Everybody wants to balance the books, but you don't have to do it by dislocating the system. Maybe they'll listen to you, but they don't listen to me.

The Chair: Thank you very much, Mr Simonaitis. We appreciate your presentation today.

Mrs McLeod: Mr Chairman, may I ask a question for information perhaps provided by the researcher at an

appropriate point in time? It comes back to the question that was asked in a general way by Mr Phillips for a response in terms of just how the redistribution of the business occupancy tax would work.

One of the issues crucial in this community is the whole question that was raised by the last presenter of the shift between — again, we don't have bank towers. In our situation it might be the retail chains that are in our intercity core and the small, independent retailers that are in our downtown cores. I wonder if it would be possible to get some specific local data or an analysis of how chains like Wal-Mart and Superstore in an intercity area would be affected — I notice there are two clauses of the bill and I'm not sure which would affect it; it would be either clause (c) or clause (e) of section 7 — and whether they would experience likely a decrease versus the small independent retailers in the downtown cores.

The Chair: We can ask the researcher.

Mr Tim Hudak (Niagara South): Just to add to that, that isn't a very fair comprehension of the BOT, because in my opinion it hasn't been portrayed very accurately at all by the Liberal Party, particularly in the case of small manufacturers. It would be helpful to me, and I think some other members as well, to give a better understanding of the BOT and how different classes are affected. To say small businesses are in one sector and big are in the other is very misleading, and unfortunately I think it has been misleading a few of the delegates here today. I think of a group of small manufacturers, for example, and some of the small businesses, credit unions and such that are in the higher range of the BOT. It would be very helpful to get a full understanding for the committee of how the BOT affects businesses, small, large, small manufacturing, large manufacturing and so on.

Mrs McLeod: Mr Chairman, I hope that suggestion of misleading was not applied to the question I was asking. I was asking from a local perspective. We don't have small manufacturers in our downtown core; we have small retailers and restaurant and motel owners.

1100

Mr Phillips: I think it's unfair to accuse the CFIB of being misleading.

The Chair: I think "confusion" might be another word that might be used.

Mr Hudak: An accurate understanding of what the BOT does to various classes of businesses.

Mr Phillips: The federation of independent business is a well-regarded organization, and it shouldn't be accused of misleading.

The Chair: Just a moment, Mr Phillips. I have Mr Spina. On the same point of order, Mr Spina.

Mr Spina: With respect, Chair, I can appreciate the request to clarify the various categories and the impact. My concern is having the legislative researcher analysing specifics to each particular community, because to me that kind of research would probably be better coming from either the local municipal government or the local chamber of commerce as opposed to our legislative researcher. That's my concern. From a provincial perspective, unquestionably we could ask the legislative research to do that, but on a local, city-by-city basis, I think it would be an undue burden.

Mrs McLeod: That's fair enough, Mr Chair. I would redirect the question. I think legislative research could provide clarification, but I would redirect the question to the ministry, because I assume that the ministry has that data community by community and can make it available.

Mr Phillips: That's good.

ONTARIO HOTEL AND MOTEL ASSOCIATION

The Chair: We now welcome the Ontario Hotel and Motel Association of Thunder Bay, Mr Meady, president. Welcome to the standing committee on finance and economic affairs, Mr Meady. We have 20 minutes to spend together.

Mr Michael Meady: Thank you, Mr Chair. My name is Michael Meady, and I am the chairman of the Ontario Hotel and Motel Association. I am also a principal with the East Side Mario's group here in Thunder Bay. I would like to thank you for the opportunity to speak on Bill 106.

The Ontario Hotel and Motel Association, or the OHMA, is a provincial trade association representing the accommodation and hospitality industry in Ontario. As an association, we represent approximately 1,000 members from across the province. These properties range in size from the largest operators who individually employ well over 1,000 employees, to the small family-run businesses of two or three employees.

In our East Side Mario's operation here in Thunder Bay, we have been fortunate enough not to have laid off any employees in the past few years, but the overall levels of taxation that we have incurred severely limit our opportunities for expansion and/or capital improvements that we have in our location site. We do have expansion plans, we do have capital improvement that we'd like to get under way, and this would solidify our place in the marketplace here in Thunder Bay, as well as give us an opportunity to hire new employees, and we would like to get under way in regard to that.

A fair and equitable property tax system is something that everyone would support. Generally speaking, Bill 106 is a positive move in that direction. I do have some concerns and believe the government needs to address them to ensure the full benefits of the legislation flow through and are permanent in nature. Bill 106 introduces a new system of assessment: actual value assessment. Some critics would argue that this is just market value assessment in disguise, but there is a difference. Our experts tell us that for the vast majority of the province which has already gone through the market value process, this issue is not important.

What Bill 106 does is provide assessments based over a three-year period. This should provide a fairer method of assessment no matter what the class of property, as it will avoid or help avoid the highs and lows of inherent property values that occur today. Depending on what a particular property may fall into, this might be good or bad in the short term. However, given that this is playing Russian roulette with the important part of everyone's business or living cost, I believe it is much more equitable to have the basis of the assessment spread over a three-year period.

As a business person, what I require is a predictable and stable level of cost including property taxes, which for many of my members is the largest uncontrollable cost.

The legislation proposes an end or an adjustment in regard to the business occupancy tax. Given that there is a large percentage of this tax that goes uncollected, this results in a higher mill rate setting by the municipalities to make up for the shortfall. We would expect that municipalities would be able to set a truer tax rate that represents real cash requirements.

In this area, we do have a concern relating to how the municipalities recapture the lost revenue. We strongly urge the government to ensure that any municipality that moves to recapture the lost revenue must do so on a fair and equitable basis. A municipality should not be able to target one sector or segment disproportionately.

With an important segment of our members being in Metropolitan Toronto, I would be remiss if I did not comment on the legislation as it relates to them. The hotel industry in that region has been held hostage by this system for over 25 years by having its level of assessment approximately twice that above other commercial properties. It has resulted in a string of bankruptcies and it has had a major negative impact on jobs and capital reinvestment.

It is our understanding that with the passage of this legislation in Metropolitan Toronto the level of assessment will be the same as other commercial properties. This fairness is long overdue, in that it provides these hotels with the same treatment as accorded the industry virtually all across the province. I would like to voice a major concern and propose an amendment which I suggest will improve the legislation. Bill 106 proposes to allow the Minister of Finance the power to create new classes of property that would be subject to a different rate of tax upon request from a municipality. The legislation should be amended so that any new classes of property are created through legislation.

As currently proposed, we believe the legislation could put undue pressure on the Minister of Finance of the day. If a municipality has as its objective the creation of a special class which it deems to be in the public interest, we strongly suggest that there should be no concern with it proceeding through the normal legislative process where it would receive fair and full public hearing. We have an inherent fear this section in the future could undo some of the fairness that this bill introduces and protects.

We are also very concerned in regard to the new variable tax rate setting process Bill 106 introduces. Our concern is that, if not set with real foresight, these new tax rates, formerly called mill rates, would not provide tax fairness to the commercial and industrial sectors. Residents vote, businesses don't, in the eyes of many municipal politicians. Following on that line of reasoning, municipal politicians have shown some predilection to load a disproportionate share of the property tax load upon businesses.

I urge the government as it moves forward on this rate-setting process to ensure that the range is narrowed between business and residential classes, or at the very least, that it doesn't widen. The business sector creates wealth and jobs in our communities. We need the provincial government to be a leader in this area in educating municipalities, as it is relative to the importance of their businesses and the important function property tax means as to locating, expanding or remaining.

Finally, a comment on phase-in provisions. We would have preferred a straight adjustment, but do ask that any municipality opting for the phase-in must do so in a way that they cannot withhold a major tax change until the end of the eight-year period.

I thank you for this opportunity to appear to you today and I would remind you that I am not a tax accountant or a business lawyer, but these are the concerns of both my members and the principals in my operation here.

The Chair: That leaves us about three and a half minutes per caucus.

1110

Mr Phillips: Thank you for a thoughtful presentation. One of your last points was to say to the government, don't permit different classes of commercial assessment, where you'd have within the commercial sector a couple of different classes. Every business group that's come before us, including your organization, has recommended the same thing. The problem is that they're telling people like Mr Doherty that they are going to do that, so he supports the bill because he's been told they are going to permit that; business groups have been told it's not likely to happen, so they're supporting the bill. The reason I raise this is because right now your members, I gather, pay 30% business occupancy tax, 30% of realty tax.

Mr Meady: Depending on if the member's a chain property or an independent property.

Mr Phillips: But an independent property would be up to 30%?

Mr Meady: I believe so, in that range.

Mr Phillips: It is clear from everything we've been told that municipalities are going to put the business occupancy tax back on to the commercial-industrial realty tax. Every mayor and reeve has told us that. So your members that are paying the 30% business occupancy tax are going to pay more. It's just a given. In spite of that, you are supportive of the bill. Do you think we should be doing anything within the bill to try and cushion that blow for the small independent business people?

Mr Meady: I'm not sure if anything does address the opportunity for cushioning the blow for those who are going to get an increase in regard to the business occupancy tax or something else in recapturing that type of revenue. Our independent smaller properties do understand that there is going to be an equitable levelling of the field and actually do agree with the fact that that should go forward. Some businesses in the higher or chain property taxes that are paying a higher percentage don't believe that is fair and they understand that there is going to be an equitable levelling of the field. As far as cushioning the blow, I don't know what has been proposed or suggested, but I think we'd be amenable to take a look at any type of cushioning format for them.

Mr Phillips: One of our roles in opposition is to make sure there are no surprises, that people a year from now don't say, "Why didn't you tell us that our taxes were going to go up?"

The second thing I'd like to talk a little bit about is that education is still on the business property tax. I gather it may be coming off the residential property tax, although it looks like $1 billion increased cost going on to property tax, so that's in question a bit right now. What is your understanding, because we can't get clarity from the government, of how your education business property taxes will be assessed to your members?

Mr Meady: It would be difficult to do it on an individual basis from municipality to municipality.

Mr Phillips: But just generally.

Mr Meady: Generally speaking, the level of taxation is going to remain relatively the same, with some increases in some areas and some decreases in some areas, but we believe as a whole that it's going to be relatively fair on an equitable basis from municipality to municipality as well as from member property to member property.

Mr Phillips: Do your members think there will therefore be a uniform educational mill rate for businesses across the province? In other words, if you have —

Mr Meady: I think it's going to be relative to the educational cost needs in the individual communities on what has been recaptured in the past and what are their needs in the future. I believe that there's going to be some equity. As to what a municipality captures for its educational percentage of tax in that individual community, I couldn't give you any definites on what the percentage would be, but I believe it would be fairly constant as far as what they had captured in the past and just a different presentation on how they recapture those types of costs in order to provide the needs of the community.

Mrs McLeod: As decided by Queen's Park?

Mr Meady: I'm sorry?

Mrs McLeod: So Queen's Park would decide on a differential mill rate for education in each different community?

Mr Meady: I think each municipality is going to determine what their needs are in terms of delivering that. How it's going to be delivered through Queen's Park to each of the municipalities I have no idea. I couldn't comment on that.

Mr Pouliot: Mr Meady, I need your help to develop a theme. An average room, let's say at the Valhalla or the Airlane, would pay how much municipal tax per year, per room? Would you know?

Mr Meady: This Valhalla property? No, I couldn't give you the exact dollar per tax per room, but I believe Edward's speaking later. You could ask him. He's the manager of this property.

Mr Pouliot: I'm trying to find out what the difference would be between what is being paid now and what the assumption is will be paid in the future. I think it's quite important to know, that so much per square foot, if I occupy room 100 or whatever, how much of my occupancy cost as a tourist, as a guest, goes towards paying municipal taxes of all sorts.

Mr Meady: I couldn't tell you the exact numbers for this hotel property. What I can tell you is that as a trade association one of our jobs is to educate our members and our property members with regard to the level of taxation that they are incurring in their individual communities. The member properties involved in our association know there's a gross inequity with regard to a hotel room here in Thunder Bay compared to a hotel room in downtown Toronto compared to a hotel room in Ottawa. The level of taxation that's incurred by each individual property is at such a high variance, between big lows and large highs that this is one of the reasons we need to address this.

Mr Pouliot: You draw a correlation, a parallel between outstanding arrears in the taxes and the rate of taxes. To what extent do you believe this is accurate? Is it one component out of many factors: interest rates, cycles and the economy etc? Surely it would be an invitation if you are in tax arrears because the taxes are too high? Is that what you were mentioning, that more people would pay their taxes on time if taxes were lower?

Mr Meady: That's really not what I was making reference to. Are you making comments with regard to the business occupancy tax being recaptured by the municipalities? Is that what you're referring to?

Mr Pouliot: I'm talking about, for instance, the Valhalla not paying their municipal taxes. The reason they're not paying their municipal is that taxes are too high. Do you feel that's valid?

Mr Meady: I couldn't comment on the individual property, but if that's the statement that was made.

Mr Pouliot: How many people, FTEs, full-time equivalents, does your industry employ in Thunder Bay, hotel and motel operators?

Mr Meady: In Thunder Bay, there are about 276 licensed properties that are involved in some form and fashion, ranging from hotel properties that employ about 400 all the way down to ma-and-pa operations. The exact numbers I haven't compiled for you.

Mr Pouliot: Without imputing motive, simply candidly speculating, if the government doesn't amend and move to restrict additional classes of taxes, do you feel that there's a good chance that some municipalities would become innovative and impose a new class of tax to get the taxes what they lost in the first instance by virtue of the differences in the BOT?

Mr Meady: I believe that's something that has to be watched with a very careful eye. That's one of the reasons we made a recommendation that if new classes are to be developed and the municipalities want to go through getting new classes, that they go through a legislative process which is most fair and equitable so that all players can play along.

Mr Pouliot: If we give fewer classes, there's no option or fewer options, and the industrial gets a break, what they refer to as a more level playing field, and the commercial gets a break, who is going to pay?

Mr Meady: In regard to where they're going to recapture those dollars?

Mr Pouliot: The money has to come from someplace —

Mr Meady: Obviously if some are paying too high, some are paying not enough.

Mr Pouliot: No, but if they do, there's a distortion here. There's a discrepancy, I should say. Under your

proposal there's less money coming out of the commercial —

The Chair: Thank you very much, Mr Pouliot. I'm afraid our time has expired. If we could move to the government side.

Mr Spina: Thank you, Mr Meady, for your presentation. I think you appreciate, and I just wanted to re-emphasize, the fact that this government's objective is not to jam taxes into businesses' laps or even into the residential. What we want to achieve out of this whole exercise, whether it's Bill 106 or whether it's any of the other Who Does What initiatives, is to create a fairer balanced tax assessment system, both revenue and expenditure. That is our objective. It always has been and will continue to be.

Our efforts are really geared to try to develop a structure that will help us together, both as a province and as a municipal government, to achieve that objective, and I hope you appreciate that. You know we've done many things like eliminating the employer health tax, which I think would be a great help, particularly to the operators and members of your association, things like that. You had an interesting recommendation which I think was brought up earlier and that was that any additional classes of property assessment would only be able to be created through provincial legislation. Did I understand that correctly?

Mr Meady: That's correct.

Mr Spina: Do you have a problem with the increase now from the four basic categories to the six?

Mr Meady: I don't believe so as a whole. It depends on how it gets applied and who gets attributed into those additional classes.

1120

Mr Spina: There is a series of safeguards against municipal governments jamming either large or smaller business in particular with more taxes. That is what I brought up earlier, and that is that the province will define the tax ratio range for each class of property. We are confident that any of the transition ratios that are outside of those ranges would be retained, but future changes in those ratios are going to have to move closer towards the ranges that the province would like to have. Do you feel that is a strong enough safeguard within the legislation to be able to protect that small business person?

Mr Meady: Actually I do not. It is a safeguard. I don't believe it is strong enough because of the fact that in some municipalities the shortfall can be great as far as where they're going to be recapture it from and determining if they're a strong industrial base area or not. I believe that the development of new classes with limited safeguards is not a strong enough process for them or to protect the small businessman from municipalities. They can come up with creative ways to recapture those lost revenues through the development of different classifications and specifically targeting those individual businesses.

Mr Spina: So even if we set the range within each of those categories, you think that the municipality can override that somehow?

Mr Meady: No.

Mr Spina: That's what I'm trying to understand.

Mr Meady: From my understanding, the development of a new class as far as a ceiling on that new class development or new class for the assessment on it, that's where I think the danger lies.

Mr Spina: I understand that. Good. Thank you.

Mr Hudak: Thank you, sir, for your presentation; very intelligently delivered, I think, and also very consistent with what the CFIB has said in terms of creating a level playing field by scrapping the BOT. Like I said, there are some small retail sectors, for example, that pay less than the blended rate would pay if the whole thing was put back on to the commercial sector, but at the same time small financial companies, small manufacturers, small media, builders, engineers, architects and those in the legal profession, all those would see a blended tax at a lower rate than they're currently paying for the BOT. So I appreciate your position on a level playing field.

The CFIB's position from that is that they would suggest that the taxes be spread out among all property classes instead of the BOT being put right back on realty. What we've decided to do is give municipalities the option to decide how best to raise revenues to meet local demands and local concerns. Would your feeling be to let municipalities decide how to replace the BOT or should the province, as the CFIB suggests, mandate that it comes from broad-based classes?

Mr Meady: Obviously once again our fear does rely on — I don't know where the municipalities are going to recapture that from on the loss of the BOT. We believe that it would be best implemented by the provincial government on their legislative — at least some safeguards with regard to overseeing that. Now how that is applied I don't know. I haven't looked at the CFIB's presentation as far as their broad base, but I would like to take a look at it.

The Chair: Thank you very much. We appreciate the hotel and motel association for coming and making a presentation today. Thank you very much.

PORTER BAILEY

The Chair: We now welcome Mr Bailey to the standing committee on finance and economic affairs. We have 20 minutes. If you'd like to make a presentation, we can fill any remaining time with questions. Please proceed.

Mr Porter Bailey: I have a fairly brief presentation, but at any rate, good morning, committee members. I'd like to welcome all the committee members to Thunder Bay and note that some of you may have had misgivings last week that you would ever be up here this week. However, I expect most members of the committee are relieved to be out of the Legislature for the time being.

Some personal notes and background: My name is Porter Bailey. I grew up in Thunder Bay and I'm currently working in the computer and information processing field within the construction and development industry. I'm quite familiar with commercial property management and have had constant exposure to the area of municipal property taxation over the last 20 years. This includes everything from dealing with assessors on a one-to-one

basis in providing information on properties through to participating in property tax appeals.

I intend to make a relatively brief presentation this morning, as I am of the opinion that the changes proposed are very straightforward and generally very sensible and practical for all parties concerned. To my mind, in some senses, these are more like housekeeping amendments that should have found their place into the system long ago through the general evolution of the tax system and the passage of time.

In reviewing our current municipal tax system, we see a system that is in essence a simple cost-recovery mechanism. Each year the municipalities set a budget for the upcoming year to determine their total funding requirement. This amount must then be assigned into the assessment base which is a known amount. Certain classes of property are allocated at a higher rate than others. Based on simple arithmetic, the total required amount is then assigned to the classes and hence the properties that compose each class and the tax base.

All municipalities carry out the process in pretty much an identical manner. However, where a certain problem arises is in the determination of assessed values within the classes, which represent the pools of similar properties. The determination of the value of each individual property is the fundamental unit, which is then accumulated to determine the total within the classes, as well as the overall total of the assessed base. In Thunder Bay, the assessment of properties has been on a current value basis for many years; in fact, I remember when the change to this basis was made some 10 or 15 years ago.

Apparently this is the practice in the majority of municipalities in Ontario. It is not so in Toronto. Having moved into the current value system here, I am aware that it is a reasonable system. I do not see any reason why Toronto should not be on a like system. In fact, I am unable to have any sympathy for those in Toronto who are complaining about the changes proposed. I suspect that they are complaining mostly because they would like to maintain a personal advantage that they may have realized under the old system.

Anyhow, the market value system has been well tried in what I'll call the warm-up stage in the outlying municipalities and now it is time to bring it to the big city. From the point of view of managing a very large municipal tax-gathering system in Ontario, it is obviously of benefit to have a consistent approach across the entire province.

Property values do fluctuate significantly over time, as anyone acquainted with the real estate industry is aware. The legislation calls for the use of a three-year moving average to set values, and I believe this is quite a useful feature in setting values. Furthermore, the valuation system will move away from the handbook and formula approach to valuation to a basis in actual sales of properties and the use of the selling price. This is the best possible basis, one that everyone understands and one for which the evidence is very solid. There is no doubt that this brings the greatest amount of equity into the system and, secondly, it is a system that is easy for everyone to deal with.

In respect of the business occupancy tax, I wish to make a few observations. As noted earlier, the entire system is based on cost recovery for municipal services with the fundamental notion that usage of services is tied to the size and hence the value of a property. On this basis, it is most equitable to base the cost recovery on the property itself, not on the property plus an extra levy if a business happens to be using some of the property. Certainly the usage of the municipal cost base is not necessarily affected by the type of activity within a property.

Another factor relates to the highly variable nature of businesses. In the current business environment, simple occupancy of a number of square feet of space in a building is absolutely no determination of the economic substance or impact of the business itself. Some businesses use very little space and generate very large economic activity, where others have low returns on large amounts of space. However, the current occupancy tax is simply a reflection of the size of premises being used in the process.

In most modern business leases, the lease is developed on a triple net basis with the tenant being required to cover the property taxes that run with the premises. This tends to be the most effective way to have the cost recovery of municipal services allocated to the users of a premises.

There is a bias in certain parts of the political spectrum that believes that businesses ought to be required to cover a disproportionate part of the municipal cost base. I disagree with this entirely; however, the proposed legislation affords any municipality with an opportunity to assign the various assessment pools at varying rates. Consequently, if the above principle of tilting the tax levy against business is thought to be proper, there is the ability to address it.

1130

The legislation proposes to move away from the old term "mill rate," and to simply express tax as a straight percentage of assessed value. This appears to be an excellent idea, so as to remove as much as possible the mystery that goes into making up the property tax.

One of the biggest problems over time has always been the inability to understand the workings of the property tax. First there was the assessment, which was anything but the actual value of the property, usually a small fraction thereof. Then there was the mill rate, which was often not understood by taxpayers. Next there was the concept of classes, which had varying degrees of participation in the total. Needless to say, very few people were able to relate to their position in the entire scheme of things. Making the tax a percentage of assessed value will be very helpful.

In summary, I believe that the proposed legislation is a very useful piece of legislation that brings a much greater degree of equity and certainty to the tax base. I do not think the legislation has a particularly large effect on Thunder Bay. There is obviously a larger effect in Toronto. However, I think that from our experience here, there is no reason at all to not proceed with these changes in Toronto, and I'm pleased to see the government and this committee getting on with it.

The Chair: That leaves us about three minutes per caucus. If we could start with the NDP.

Mr Pouliot: Mr Bailey, I'm surprised that you're so familiar with the situation in the city of Toronto. I represent the riding of Lake Nipigon, and we seldom have two bad political days in a row, because on the second day we hit Toronto. It has proven over the years to be a fairly good recipe for political rewards.

You perhaps are right that Thunder Bay, by being current, has averted the risk of some severe fluctuations, if you wish. You're an expert in this endeavour, in this field. How important do you feel property taxes are? From all indications that I'm getting as I decipher, as the bill comes under scrutiny, more and more evidence points out that when all is said and done, when this is implemented, the residential taxpayer, the property owner, will be asked to carry the ramifications, asked to carry the guilt, will get hit between the eyes, more so than anyone else. They are the losers in all this.

In terms of value of property, how important is the tax component? For instance, if my property taxes were to go up between 15% and 30%, does it play a large part in the marketplace when it's time to sell the property?

Mr Bailey: I think you're working on an assumption that the municipality in question is going to allocate additional amounts to the residential pool, but I don't see where that comes out of the matter at hand.

Mr Pouliot: But under the same scenario — and why not? — if the municipalities were asked to pay more, to generate more tax dollars because they have to pay more services — because in the switch here, there's some downloading. Every municipality in Ontario says, "It's going to cost us more to render the service."

Mr Bailey: This bill doesn't address the amount that is going to be downloaded or not downloaded; this addresses how the given services are allocated among the taxpayers themselves. First the municipality has to determine its tax base, then it allocates them. That's all this bill seems to deal with, that I'm able to read.

Mr Pouliot: This bill, with respect — and I respect your interpretation — is webbed; it is meshed. This is one bill that is a key, a mechanism to enact policies. They have many bills that are advancing at the same time. This does not stand in isolation, sir. It does not. This is part of a bigger agenda. It's one component. That's what we try to keep in mind as we're seeking more information from the government. To this day, eight months before the sky falls for some, we still don't have the information that is necessary. So yes, I impute motive. I suspect, having worked with those people for some 12 years, that I'm beginning to have a better understanding of incompetence or dishonesty. Oh, I'm sorry, I'll withdraw "incompetence."

The Chair: Thank you very much. Perhaps with that we could move to the government caucus.

Mr Hudak: I have two questions, the first dealing with a potential class for small business. We've heard in some discussion here today, and certainly the discussions we had last week, some people have suggested there should be a small business class, which would be at a different rate than the regular commercial. Other groups have suggested that would be a bad idea, that since we've already tried to get rid of the BOT to level the playing field for all businesses, we should keep that theme and have only one commercial class. What are your feelings on whether there should be two types of commercial classes or a single one?

Mr Bailey: I don't have a strong feeling on that, and the reason is that once the classes are determined, they are still based on the actual value of the buildings within the classes. Presumably, the yardstick for determining the value of a building is the same whether you're in class 1 or class 2 or class 6, as the case may be. The valuation of a residential property is its market valuation. The valuation of a business property is its market valuation, be it a small business or a large business. Given that the valuations are accurate and reasonable, then it becomes the municipality's role to determine whether to assess a little greater proportion to this proposed small business class versus the proposed big business class.

I don't necessarily see that it needs to be allocated between them at a slightly differing rate. I don't find that to be totally compelling. I still believe every person should stand up on his own two feet and bear his fair share of the costs. If he costs, he costs. This is a cost recovery system. It's an idea. I'm certainly not against it, but I don't see it as the best thing.

Mr Hudak: Fair enough. My second question is, just to follow up, you talked about the Toronto hearings we had last week. I don't know if you had a chance to watch it on the assembly channel. There is a group of taxpayers, particularly from the Rosedale area, a relatively affluent part of Toronto, who rejected the idea of a current value assessment based on the value of the property in favour of what they called a unit value, which would be on the square footage of the property and the building on the property. What are your feelings on that?

Mr Bailey: I can see a certain amount of reasonableness to it, but you've got more classes than a residential class. You have factories and you have office buildings and so on. You need a yardstick that tends to be consistent across society and across all real estate entities. There are things like hydro thoroughfares etc.

To try to get a yardstick that works, that there isn't a lot of scrapping about — actual market value based on selling prices and so on is a very strong yardstick. People can go out and get a list of properties — that sold for that, that sold for that, that sold for that — and they can extract their property as to where it would be. So you're working on a fairly firm footing, whatever you're dealing with. Granted that if my house on a 100-foot lot is worth $150,000 and yours on a 100-foot lot is worth $100,000, we both probably use up the same amount of municipal services, but I see market value as something that cuts across a lot of ranges and therefore is a good way to use.

Mr Hudak: Others have pointed out too — the presentation slips my mind now, but I think it might have been the Toronto board of trade or Metro board of trade — that only 10% of the municipal bill is actually the hard services and about 90% now is more the soft services: the fire, the police and that sort of thing. They made the argument then that your taxes aren't based on use of the hard services but on the broader municipal services.

Mr Bailey: That's true. Really, this bill is contemplating: "There's a municipal budget. That's what it costs to

run the municipality. How is the money to be returned back to the municipality to meet that cost?" It doesn't address what they want to spend the money on, it simply addresses that this is the amount of money they need. So if they expand their soft services or contract their soft services, this only says there's a number that has to be retrieved from the community. I'm not really getting into what the municipalities ought or ought not to spend their money on. They do spend it and they have to get it back.

Mr Rollins: Thanks for your presentation. It's quite obvious that you haven't just come on to this thinking of the way this bill is being brought into process at this time, that this is something that has been talked over and argued over for at least the last two or three governments, if not the last 10 or 15 governments. Do you see it as a lot more level playing field?

1140

Mr Bailey: I see it as a more level playing field. I remember the debate and discussion that went on in Thunder Bay when we went from the handbook way of determining assessment to the valuation method of determining assessment. There was a certain amount of controversy, but it all died away long since and nobody gets into that, "Jeez, under a handbook I could have gone in this column in that row and I would have come out a little bit less." People recognize the market valuation and that controversy has long since died.

Mr Rollins: Also, since about 1904, when the BOT was brought in, it has been a tax that I think everybody has agreed shouldn't be there. Thank you very much for your presentation.

Mr Phillips: Thank you very much for being here. I just have a comment on the unit value. It was actually Mike Harris's pretty good pals the Canadian Taxpayers Federation who were pushing that value, and they're a little bit unhappy with him right now.

In any event, you commented on the business occupancy tax, around the use of what services property tax should pay. The bill that we're being asked to support here is designed to support certain municipal services now, and it happens that education's staying on the business sector, which is a bit unusual. But they're also adding, as you know, seniors' housing on to property tax, so all the seniors in Ontario now rely on the business property tax for support; all the ambulance services now are going to move on to business property tax — and residential, I might add there — social assistance, child care, long-term care, all of the in-home care for seniors.

The reason I raise this is that we are approving a tax system designed to raise money for those things, and as I listened carefully to your presentation, you were implying that property tax should raise money to pay for property services. I gather you're in support of moving seniors, ambulances, nursing homes on to the business property tax.

Mr Bailey: First of all to address the implication, I did not mean to imply that certain municipal services should be carried one way and certain municipal services should be carried another way. I'm not really addressing, in my mind, the area of what municipal services are carried. I realize that the municipal services come to a certain dollar total, whatever they may be, and those are applied across the property tax bill system that I believe is being addressed here. I don't think I'm trying to say that ambulance service should be carried one way and fire services or sewer and water should be carried another way. I don't think I'm addressing that.

Mr Phillips: The reason I raise this is that actually Mr Pouliot's right: We are dealing with a package. The government's fond of saying — they carry around the Who Does What binder. It's got all their stuff in there about all these bills, because they're interwoven. We're being asked to approve a tax bill designed to raise money to provide the services that the province has decided it's going to load on to municipalities. We have to design a system that will pay for seniors, nursing homes, child care, social assistance for children who need social assistance for clothing and housing and food.

My question is — because I listened to your comment that the business occupancy tax originally was designed for one way — are we putting the right services on to the property tax and therefore designing a property tax system to service — are you supportive of your property taxes going to support long-term care?

Mr Bailey: I wouldn't be surprised that some of my thinking is a lot like yours. When you get your property tax bill you'd rather it was lower, and I think everybody in this entire room would rather that they didn't have as much tax expense to bear. You're looking at the many-bills issue and I've come here looking at this particular bill, but that's fine.

There's a change between what a year ago, two years ago had been covered under the property tax system and what is proposed next year or the year after to be covered under the property tax system. One of the main features has to do with education, bigger than all of the other features. I support the change in the way that education is going to be carried, with funding through the province, and so corollary to that I see this other means of having services carried by the municipality to be a satisfactory offset to the changes in education which I think needed to be made.

The Chair: We have exhausted our time. We thank you very much, Mr Bailey, for your presentation today.

GRANT NUTTALL

The Chair: We now welcome Mr Nuttall to the standing committee on finance and economic affairs. Welcome, sir. We have 20 minutes to spend together. If you would like to make your presentation, we can fill any remaining time with questions.

Mr Grant Nuttall: Mr Chairman and members of the committee, it's a real pleasure to be here from Dryden, Ontario, four hours away, to make a presentation to the committee. I would like to first of all tell you a little bit about myself. I was president of the chamber of commerce — we had 200 members — in 1984-85 and 1995. I was also a town councillor in 1980-82 and 1989-1991. I find this Bill 106 is exactly what we were looking for when I was on council, because in 1989 we asked for a reassessment of our properties. I can say I voted against it, because I was very fearful of what it would do to our town and our business community.

After we did the reassessment — we reassessed for 1984 — we found that there was an equal balance between the businesses and the realty of the owners of the housing. We had one hotel owner, in fact, when his reassessment was done his taxes went down by $6,000, so there was not an equal playing ground there and we found that when we did do the reassessment we were very pleased with the results. After that, I certainly did support the council to do it, but they didn't because of the fact I wasn't on council.

This thing has been studied since 1967 by the Smith committee, the Blair commission in 1977, the Robarts commission, and the Fair Tax Commission in 1993. I think it's been studied to death. I think it's time that we moved ahead and did the reassessment. I'm sure in our town alone — we have the main industry of Avenor; it pays 51% of our tax base. I can tell you that if we can work in any settlement with Avenor in the business tax, it would help us to create jobs. We know in our town that we rely heavily on Avenor, but it is a company that we can be proud of because it does a lot of support for the town.

The concern I have with the bill, and it's only one concern — and I say this as a councillor from the town of Dryden when I was on there. Councils can make decisions and mayors can make decisions, but I can tell you that the difficult time that I had was administration. They always like to get that little extra tax grab. I think there should be something in this bill that if you do assess a senior's home or a disabled person's home, that the municipality cannot charge interest on the taxes that they defer. It's very disturbing when you find that when you're in tax arrears that this happens and then your tax bill in three years is actually doubled, because municipalities have the tendency to charge more. I used to fight that all the time but it was a losing cause because the administration sometimes tries to rule the roost. The concern I have with the seniors and the disabled, it's good that they can live in their homes as long as they possibly can. In Dryden we have an older community and the seniors like to live in their homes, so that is one concern.

1150

Also I have a concern with the business community. I do own a business. I own a building. It's a funeral home. It's a dead business but it's a good business. I can tell you that I will probably be assessed business tax, which I'm prepared to take on, but also I think that the municipalities have to be taught a lesson here. I remember when I was on council, every year we used to write off business tax, either because the business closed or it moved out of town. Our business taxes were at a high one time of $20,000. This is money that we couldn't collect because the businesses were out of business or moved out of town.

I am prepared to take on the business tax providing that the municipalities get their act together and make sure that we're not burdened with the extra costs.

That is the only concern I have with the bill. The other thing I like about the bill is that they're going to have assessment updates. This is something that we really need.

On the lighter side, I was down in Toronto last month and I happened to attend one of the megacity meetings just to hear what was going on, and I had a chap sitting next to me. He said to me, "You know, I really hate this Harris government," and I said, "Why?" He said, "Because they're going to reassess my house." I said, "Oh, what's the problem?" and he said, "I paid $50,000 for my house." I said, "That's great," and he said: "Yeah, it was a good buy. Now they want to reassess me, and they will probably reassess it at $250,000." I said, "What's wrong with that?" He said, "That's too much." I said, "If I wanted to buy your house, how much would you sell me your house for?" He said, "For $300,000." I said: "I think you have to get with the real world here. There seems to be a problem. You're getting off scot-free."

Also, I'd like to close off by saying, in case anybody asks me, I'm the president of the PC association in Kenora.

Mr Phillips: Oh, no.

Mr Nuttall: There's nothing wrong with that.

Mr Phillips: That's great.

Mr Nuttall: I was elected.

Mr Phillips: Perfect.

Mr Nuttall: But let's be up front about it. You know that, Gilles.

Mr Phillips: The other one said that before you. Mr Doherty was here before you.

The Chair: Thank you. Your time will come.

Mr Nuttall: You had that. I drove four hours, though. Nobody paid me to drive, see, because I'm concerned as a past councillor.

The Chair: Maybe we could get back to some kind of formal process here.

Mr Nuttall: I was just trying to give him a lesson of the north, that's all.

The Chair: I hope the lesson wasn't lost. If we could move to the formal question period, with the PC Party starting first.

Mr Spina: Good to see you again, Mr Nuttall. There are two things that surfaced here. One is that you made a comment that in your years on municipal council governments have analysed this, have studied it almost to death, and yet no one had the guts to address it. In particular, the Liberals and the NDP both buckled under pressure from Toronto because Toronto did not want a fair tax assessment process. Will the sky fall on January 1, as the honourable member for Lake Nipigon claims? Is this a tax grab bill or is it a balanced, fair tax assessment bill in your opinion?

Mr Nuttall: As a past councillor, I can tell you that when we had the reassessment done, the sky didn't fall. Nothing happened. Everybody was quite pleased; there were some increases. I think when this is put through, the people who should pay are going to pay, and there's nothing wrong with that. I know I've heard them talk about downloading. When I was on council, one of the things we used to say is that we want more power. We're getting it. So what are we bitching about?

Mr Hudak: Grant, good to see you again, too. I want to follow up on some questions I asked the previous presenter, especially with your experience as a municipal

councillor and obviously your wisdom from holding a PC membership and being the president of your party.

This bill gives a lot of flexibility to municipalities on how to address their particular tax needs. For example, we're scrapping the BOT, which is an arbitrary tax, and letting municipalities decide then how to collect the tax; if they want to recapture that revenue, how best to do it. Some groups have suggested that it should be put right back on business. Others have suggested that it be broad-based. Do you think it should be the municipal government's decision as to how to collect taxes or should the province set very strict guidelines?

Mr Nuttall: It should be up to the municipality. I can tell you, too, that when our municipality did this reassessment, there were a lot of complaints. We were really concerned about the flak we were going to take. We took no flak, to speak off. I think with the business tax, we have to look at balancing it out. The municipalities have to have the power to spread it out but the municipalities also have to understand that the amount of tax we used to write off, say $20,000 or $25,000 a year, should be taken into account, that we don't have to put that in the bases, because let's face it, we're going to lose that $25,000 anyway. I can tell you that our municipality in 1989 had $4,000,000 in the reserve fund. We were good business people, I felt. On our own initiative we did the reassessment.

Mr Hudak: I appreciate that point, too, about the difficulty in collecting the BOT. That hasn't been brought up enough in this committee, so I appreciate your insight into that.

My second question had to do with the idea of a separate rate for small commercial business. The BOT elimination levels the playing field across those sectors. Some groups have suggested, again, that there should be a separate rate for small businesses, maybe a downtown area or something like that. What are your feelings on that idea?

Mr Nuttall: I agree with that, because I'll tell you right now, our downtown is dying because everything is moving to the highway. I don't like to use that word, "dying," but it's bad, it's really bad, and a lot of municipalities are facing the same problems. I think they have to look at the small businesses, because they're the ones who create jobs. Big businesses create jobs, but the little guys create a lot of jobs.

Mr Phillips: I appreciate your being here. Actually, it's irrelevant to me who's the president and what not, but you're the second one who has made quite a —

Mr Nuttall: I like to tell you that up front.

Mr Phillips: Mr Doherty in his brief said he was the president of his Conservative riding association. We're pleased that you could be with us.

I'm a fan of AMO, the Association of Municipalities of Ontario, and I'm a big believer that local municipalities know things well. I used to be a businessperson, had 300 employees, three companies, all that sort of stuff, and I would never take a business decision without some study on the impact of it. AMO points out:

"Since there were no impact studies done before making the tax policy change, it is difficult to know what the overall impacts will be. The impact of the Who Does What reform is also an unknown variable in determining the aggregate impact on property tax. AMO strongly recommends that such an impact analysis be done prior to the bill's third reading."

In other words, they're saying, as you said in your brief, change is needed, let's make change, it's been studied. But strangely enough, for some reason or other, the government refuses to issue an impact study on what the impact's going to be. You, as a councillor, and me, as a provincial member — don't you think AMO's right, that we should have some idea of what this is going to mean before we sign our name to it, or is AMO all wet?

Mr Nuttall: I think every municipality knows how much business tax it collects. I used to know how much it was when I was on council.

Mr Phillips: Why would AMO say this, then?

Mr Nuttall: You're talking about AMO as — the biggest organization that AMO has is in Toronto. We're little guys up here in northwestern Ontario. We have a representative from Rainy River on there. Perhaps he doesn't agree with AMO. As you probably know, we don't agree with AMO all the time because we tried to get a member up there as president and the big-city Toronto people voted us down.

Mr Phillips: So you don't think we need any impact studies before we approve the bill?

Mr Nuttall: What kind of impact studies are you talking about? You could study yourself to death.

1200

Mr Phillips: But suppose I said to you, "Your small business tax is going to go up and large business property tax is going to go down." That's what I believe, that's what my own internal work says. The government says, no, I'm wrong. Don't you think maybe we should produce some numbers to say who's right and who's wrong before we approve this thing? Or, is it just, Mike Harris must be right and so —

Mr Nuttall: I didn't say Mike Harris is right or wrong. I'm just saying it's a good bill and it should be done. Then again, you're fearmongering. That's what the Liberals and the NDP and their coalition seem to think.

Mr Phillips: No, excuse me. I'm saying I want the facts. I think I'm right.

Mr Nuttall: Do you know the facts in Dryden, what the effect would be?

Mr Phillips: I'm assuming, because they don't issue an impact study, that we don't have the facts or they're hiding the facts; one of the two things.

Mr Nuttall: I can tell you, as a past councillor, I can't see anything hidden here. Because we know how much the business tax is, we know how much the property taxes are, when I was on council, and we sat there with a big surplus.

Mr Phillips: Will your business tax go up or down?

Mr Nuttall: If we have a good council in, it should go down. But if they're Liberals, they'll go up. I had to give you that little dig.

Mr Pouliot: We met before. It's a renewed pleasure. I too spent some 10 years at municipal council and I've been travelling the North Shore with this job for 12 years now. Our riding is the largest geographical riding in the province of Ontario. It's made up of very small towns,

not unlike Dryden, smaller than Dryden but similar in nature. I can appreciate that you drove four hours to get here and you did so at your own expense. I hope, sooner rather than later, that if you don't get compensation for mileage —

Mr Nuttall: I don't expect to.

Mr Pouliot: No, no, excuse me. Would you please, kindly, and I will listen to you.

Mr Nuttall: Sure.

Mr Pouliot: I think that's fair, that you might get another reward. Who knows? There are all kinds of twists in the future, and in the short term it looks rather promising.

You've mentioned Domtar paying 51% —

Mr Nuttall: Domtar? Did they sell out? I didn't know that.

Mr Pouliot: Avenor. I'm sorry. I made a mistake. I apologize — Avenor, paying 51% of —

Mr Nuttall: Tax base.

Mr Pouliot: Tax base. Is that both general purpose and education?

Mr Nuttall: I don't know what their education tax is, but I know their tax rate is 51%.

Mr Pouliot: So in the case of this legislation, in Dryden, Avenor would pay less because you've mentioned that they would be able to create jobs, right?

Mr Nuttall: That's good. Yes.

Mr Pouliot: So they would pay less money?

Mr Nuttall: They probably would.

Mr Pouliot: That's right. Kimberly-Clark in Terrace Bay, for both general and education purposes, pays about 65% or 68%; Domtar in Red Rock pays about 60%; James River in Marathon; Hemlo gold field; all contribute what seems to be a disproportionate amount. But if you take away that ability — and they don't seem to be complaining a lot; and they do pay a high proportion but everything has to be put into perspective — who will pay the difference?

Mr Nuttall: Like I say, again, when I was on council, we had a very balanced budget. We had lots of money in reserves. As far as education, I know the education is going to cost us a lot less with the education bill that's coming through, which is great, because we're not going to have the trustees to bill. I really can't say. As a past councillor, if we don't have that money coming in, I think we would look to some other places to probably collect it, if we have to. But you're just saying we have to. You're not sure.

Mr Pouliot: The consensus that I'm getting at the present time — most small municipalities, for instance, don't pay for OPP service, don't pay for policing. They only pay for 20% of the welfare. They don't pay for senior housing. When they balance this against the education portion, what they pay for education, they come up anywhere between 30% and 100% increase in taxes. They're very vulnerable.

With this, if you have a decrease from the main employer, you need a lot of assessment to make up for this; and they're not growing; they're lucky if they stay the same. Small business creates jobettes; big business creates jobs. There's a big difference between the minimum wage in most instances, not because you are not well intended but because you cannot pay more, a difference at the main factory or at the main mill, which is the heart of the business community.

I have some difficulties, and I would have more if I didn't know that this is downloading. Get ready. What the province is doing is taking over a predictable cost, that of education, and handing you the vulnerability of demographics and those who are more subject to impose a high cost on the system. Let's make no mistake about it. No government which is elected in the western world would endeavour to take the political risk associated with this and other documents if it was revenue-neutral. If there are five people they haven't antagonized so far, they'll just look to the Yellow Pages and ask them to make a presentation. I'm just wondering, what will happen to the government side when they run out of presidents of riding associations.

Mr Nuttall: Is that a question, or did I get a speech?

The Chair: I didn't hear a question, but if you would like to comment, you're at your own risk.

Mr Nuttall: I don't like to comment on his speeches. I've watched him in the House the odd time and it's the same thing: You can go on and on and say nothing. As far as I'm concerned, as a past councillor for six years, we're big boys. We've been asking for everything — not downloaded, but given to us so that we have more power so we can do things. But the Liberals and the NDP never gave us that power. They always said: "No, we can't do that. That's politically insane."

The Chair: Thank you very much, Mr Nuttall. We certainly appreciate your taking your time and driving that distance to make a presentation to the committee. We do appreciate your input.

The committee has no further business this morning, so we will stand in recess until 2 pm this afternoon. We have had a further cancellation and we have been able to move our 1:40 up to 2 pm. Our 2 pm is cancelled. So we will commence —

Mr Spina: Mr Chair, I've seen two lists. Is the 2:40 cancelled or on?

The Chair: On your list, the 1:20 is cancelled, the 2 o'clock is cancelled, and the 2:40 is cancelled. Our 1:40 has moved to 2 pm. The committee stands in recess until 2 pm.

The committee recessed from 1207 to 1357.

VALHALLA INN, THUNDER BAY

The Chair: I trust we all had a lovely lunch. We now welcome Mr Meijer from this hotel, the manager. Welcome to the committee, sir. We have 20 minutes together. We have copies of your presentation, I believe, and if you'd like to make some comments or read your presentation, we'll fill in any remaining time with questions.

Mr Edward Meijer: I'd like to read the presentation. Good afternoon, Mr Chairman, members of the committee. I'd like to thank you for the opportunity to appear before you today. As I said, my name is Edward Meijer and I'm the managing director of the Valhalla Inn and, I might add, a partner in the ownership group of this hotel.

Our hotel would be classed as a medium operation, catering for the most part to the business, leisure and convention trade. We have 267 sleeping rooms, 16,500

square feet of meeting space and employ approximately 255 employees.

Bill 106 proposes for the most part a fairer and more equitable system of property taxation. It does, however, contain some proposals which require amending and clarification.

In introducing the assessment process, the concept that it is to be based on a three-year rolling average is a positive step. The current system is open to the vagaries of the fluctuating market which can and do result in assessment being unrealistic to the market. The taxpayer is then forced to wait for three years for reassessment or goes through an expensive and time-consuming appeal process.

We do not mind paying our fair share, the key word being "fair." What we do need is that it be predictable and stable so that we can budget accordingly. Certainly we could win on a low in the business cycle but we can also be forced to weather the high point, as I experienced in the 1988 assessments from my days in Toronto. It is difficult, if not impossible, to weather such unfairness. So I can attest personally to the benefits of the levelling aspects the rolling average process will provide.

Because of the differences between actual value assessment and market value assessment, we do not believe it worthwhile to enter the debate. Suffice it to say there is a difference, but for the vast majority of us in the province who have experienced the market value process it's not a major issue.

We do have a concern, however, with the proposal that would enable the minister to create new classes of property upon the request of a municipality. Residents vote, businesses don't, and we have a concern that municipal council could easily develop a policy which it deems in its best interests, for example, to tax hotels higher than other commercial property. Having spent a number of years in Toronto, as I mentioned earlier, I am familiar with what the type of unfairness can mean and what the impacts are. Such unfairness has been catastrophic, and I would not want to see this potential possibility happen here.

Clause 2(2)(e) should be amended so that any new property class is created by legislation. Amending the legislation would provide us with an insurance policy that we suggest is required, given the track record of some municipal thinking over the years. If the municipal request is in the public interest, then that municipality, the government and the Minister of Finance should want to take it through the legislative process, which includes public consultation.

I am also concerned about the proposed variable tax — mill — process. That concern relates to how those rates are set vis-à-vis the differences between residential rates and commercial-industrial rates. Municipal politicians will naturally want to maintain, or even possibly increase, the differential between residential and business-commercial rates.

We strongly urge you to ensure that differentials be narrowed, and at the very least, not widened. The government must become the leader in communicating the negative impacts of lost jobs and tax revenues which result from unfairly taxing businesses. We are the means to providing the economic lifeblood of our community. We do not mind paying our fair share, but fair is fair.

Dropping the business occupancy tax, the BOT, is more than likely a good thing. With a relatively large percentage uncollected yearly, municipalities will know that they can count on collecting 100% of their assessment. This should allow the municipalities to lower their requirements and thus result in lower taxes.

We are concerned, as municipalities move to recapture their lost revenue, that it is done fairly. A hotel's BOT currently is 30% of its property tax bill. We believe it unfair if a municipality is to disproportionately load more than the amount back on to our tax bill. We urge you to ensure that if municipalities do move to recapture this tax, it is done fairly and equitably. Having witnessed first hand the subsidization process our industry endured in Toronto, I don't want to see this as the start of another subsidization, this time province-wide, municipality by municipality.

This legislation obviously is not the hot issue it is in Toronto, or the other few areas that have not undergone market value reassessment. However, it's important to the rest of the province as it does introduce a new assessment process and, with it, new regulations.

We urge you, the government, to ensure it moves forward on our suggested changes. We believe it will not only make the legislation better, but it will help to guarantee that the benefits flow through to the taxpayers. That concludes my presentation.

The Chair: That leaves us about five minutes per caucus. Mr Phillips, would you start us off, please.

Mr Phillips: You have your finger on one of the problems in the bill, and that is that it is a reality, the business occupancy tax is gone. The government's already announced that. All of the municipalities tell us that they have to recoup that and they're all saying they will recoup it from the sector that currently pays it, commercial-industrial.

The Canadian Federation of Independent Business gave us a little chart showing that it will average, when it's put on to realty tax, the equivalent of a 42% increase in realty tax when the business occupancy tax is transferred on to the realty tax. Those who are paying over 42% BOT will benefit; those paying less will pay some more. I don't think we should kid ourselves. That's what's going to happen. Every business group has told us, without exception, I think, "Don't allow for these variable commercial mill rates," the classes that properties have as the bill prescribes right now, one commercial.

The problem we run into is that everybody says, "Get rid of the business occupancy tax." Okay, but that isn't the issue. The issue is, how do we assure some fairness when it's reapplied. It's a 93-year-old tax, I think. Now it's gone but being put back on in a different way. Your recommendation here, as I recall, is to ensure it's done fairly and what not. The bill essentially will result in it being done the way I say, in my opinion. If that were to happen, would you still say, "Listen, we know we may pay some more, but overall we still think the bill is solid and should proceed as it is?"

Mr Meijer: What we're saying is that we would expect it to be not increased to what we're paying now

because as far as our industry is concerned, it's 30% of our total tax bill. If that obviously were to increase by 12%, it would be pretty devastating.

Mr Phillips: I'm in opposition. That's the result of the bill, in my opinion. Our caucus has produced some numbers that say that's a result of the bill. I urge you, I suggest to government members, you should get the numbers. If you disagree with our numbers, you get the government to table the numbers, because that's the result of all of this without any question of a doubt.

You mention in here the difference between actual value and market value. You say that you don't plan to comment on it, so maybe I'll move on. It is a big issue, by the way.

Mr Meijer: It's not so much here because we've been reassessed. I'm speaking basically from our business as I'm sitting here and I know that in Toronto there was a very serious problem. I think we're moving in the right direction.

Mr Phillips: The issue there will be that the Who Does What panel recommended one approach; the government's decided to take another approach that will have a fairly profound impact on properties. The Who Does What panel said, "Assess property on the basis of its current use." This bill calls for assessing it on the basis of what the property could be sold for on the market, which means — imagine you're in a retail store and you're being assessed on what this building and land is worth vis-à-vis other similar retail stores, but if that land could be redeveloped for an office tower, you'll be assessed at the rate of the office tower, not at the rate of your current one.

But the other point you make here is your very strong recommendation of not permitting, other than through the legislation, the establishment of any other commercial classes.

Mr Meijer: That's right.

Mr Phillips: Could you expand a little bit on that for us?

1410

Mr Meijer: It's a hypothetical thing, but say for example the city was to have problems with the budget, hypothetically speaking. They could say, "Well, okay, let's increase the tax base," and they could basically class a hotel a different class by applying to the minister and the minister could say yes, and bang, it's done.

What we're suggesting is that it become a legislative item so at least we have an opportunity to speak up and not that it's done arbitrarily without our input. That's basically what we're saying, that we'd like to have some input in it if they decide in their wisdom. Sometimes with local municipalities, as I mentioned, the public votes, but we don't vote. They can easily get a majority.

As I say, we're sitting at a corner. We spent $2.2 million, but we did it out of necessity, not because we're the fat cats of the community. This property went into bankruptcy in 1995 from January 18, basically because it was a desperate struggle. We had to inject the money, but you hear people now say, "Oh, well, you people can afford it" because we look sort of opulent, but we have to do that to stay in business. We're concerned that the municipality will not necessarily view it in that manner.

Mr Pouliot: As always, it's a renewed pleasure. Thank you, as a guest, for your ongoing hospitality through the many, many years.

Mr Meijer: Thank you.

Mr Pouliot: You're a risk-taker. You're here and you say residents vote, businesses don't, and we have a concern that municipal council could easily develop a policy which it deems to be in the best interest, for example, to tax hotels higher than commercial property. That's a fact. Municipal councils represent everyone under their jurisdiction, and lobbying and pressure — all positive stuff. When you put things on a scale, you might be asked to recoup the tax. Your business occupancy tax is 30% of the overall tax that you pay to the municipality. You're asking that changes be governed by legislation; in other words, opening up the act as opposed to doing things by regulations, which gives legislation the light.

This is more difficult but not impossible for the government. That's one mechanism, but there's really none. If you had a different government next time, or should this government take a different approach, even at the risk of opening the act, they could well do that if they had the support of the House. It's one more checkmark, but it's far from being foolproof, and I know you understand that. But it's more visible, because you can see it.

Mr Meijer: That's right. It's better than not having it at all.

Mr Pouliot: That's right. I like the assessment approach and the introduction of a three-year roll as opposed to one year to avoid, like you say, vagaries and variations, fluctuations, peaks and valleys. I think across the province that point has been well taken. It's been mentioned quite often. It does not in any way jeopardize the integrity of the legislation. It certainly is not a major deterrent and it establishes a balance. It's a sign of goodwill as well. With three years you avoid that. Especially after the first year, if you haven't been reassessed or assessed for some time, then you could be the benefactor because the marketplace can be rather harsh in judging these things.

I'm always intrigued. You pay little attention to market value or current value or actual value assessment. Some legislative forensic and DNA experts, if there were any such thing, would have a great deal of difficulty telling us the difference between what is MVA, what is current value and what is market value. You see, market value is what the market will bear, by definition. Everything I buy is market value. A cup of coffee I buy, I buy it today, so it's market value. Current value, I take it by looking at Webster's and at Oxford, means the same thing. For the people out there, for me, it means the same thing.

Of course if you've made a commitment that you will not, when you form the government, introduce market value assessment, because there are a lot of seats in Toronto, for instance, as you well know, then by changing a few small things, very minute things, you could come back with a new draft and say, "It's not market value assessment," and argue that until you're blue in the face, "It is now current value assessment." But let's face it, a duck is a duck is a duck. What you're talking about here is fairness.

Mr Meijer: That's right.

Mr Pouliot: You couldn't care less about the definition, whether it's veiled or whatever. I have to agree with you and I hope everyone who comes up with a presentation or with the preparation of legislation would emphasize an attempt and prove, demonstrate, fairness, as opposed to playing with words like a shell game that belongs to a cheap circus about to leave town, to a vaudeville or a tombola. I like your honest and commonsensical approach. The issue here is not the definition of what is or what is not, but how it hits you at the marketplace, and you wish some protection to keep the municipal people away from the long-overdue benefit in what you're getting. True?

Mr Meijer: That's right.

Mr Pouliot: I understand your presentation and I thank you.

Mr Ford: I'd like to get some idea of what you pay in tax per room here, the reason being we've had many people come before us owning hotels, managing hotels, and they gave us some indication of what it costs them per room in the Toronto area. I'd like to know what it costs you per room on the tax on an annual basis here.

Mr Meijer: My annual tax bill here is $550,263, and it translates into $2,061 per room.

Mr Ford: I realize the volume wouldn't be the same here as it would be in downtown Toronto, but downtown Toronto is paying over $5,000 per room. This is what I want to hear.

Mr Hudak: This bill is about tax fairness and finally we have a government that's willing to bring this bill in. We've had other governments, the past two or three actually, back down. When you're in Toronto you see mansions paying the same amount of property taxes as a modest home for a young couple. That's another reason when you look at the BOT why it's a tax fairness issue. You might have an insurance company of the same value next door to a small retailer, but the insurance company, just because it's selling insurance instead of shoes, is paying a higher BOT. That's why it certainly makes sense to have the one, to get rid of the BOT and have a commercial rate.

Then your concern is, you're paying the 30% now and if the municipality says, "Put it all on the commercial tax," will that change your taxes? The answer I would have is that it's the municipality's decision whether they spread it out across the base across all tax classes, if they look to have a different commercial tax rate for different kinds of businesses, even motels would be part of that.

The question I have for you is, should these decisions be made by the province? In this legislation, should we dictate how the BOT loss of revenue will be dealt with or do you leave that up to the individual municipality to make those kinds of decisions?

Mr Meijer: If it were to be my choice, you can leave it up to the municipality; however, we should have input into it. For example, at the moment it's 30%. I don't think it would be fair to now say, "Because of Toronto, we make it 42%." That in reality would be a tax grab, as far as I'm concerned. The issue and why I have brought this up is because we want to be part and parcel of the process, that we can participate in. As I mentioned, I can go to city council and it's one vote. I can have 10 people sitting beside me — and you see it on issues of smoking and skidoo trails and you name it — and the antis, or whatever you call it, they come in groups there and they basically take up the whole room and I'm just one vote of many. At the same time, we cannot ignore the fact that my educational taxes last year were almost $300,000. If you're going to change the tax base, I would like to have my say in it.

Mr Jim Brown: I just had something handed to me. It's got your beautiful picture on it, Gerry. You've been arguing that current value, market value, fair value, whatever you want to call it, are all the same. I'd just like to read a little bit of this into the record. This is on your 1990 campaign material.

Mr Pouliot: Let's be modern. Let's be current.

Mr Phillips: I like this part; go ahead.

Mr Jim Brown: "Honouring Metro Toronto's request, the provincial government has taken the necessary steps to permit Metro-wide reassessment of property tax under a new system of market value assessment. This will ensure equity of tax burden between newer and older homes, bringing substantial savings to taxpayers of Scarborough." Isn't that what we're doing, Gerry?

Mr Pouliot: Come on. If you're going to show us some pictures, show us some pictures.

Mr Jim Brown: It's a beautiful picture.

The Chair: With all due respect, Mr Brown, I think that's probably more appropriate for clause-by-clause.

I would like to thank you, Mr Meijer, for your presentation today. We appreciate your taking the time to make the committee aware of your feelings.

1420

PAUL ANTHONY PEPE

The Chair: We now welcome Mr Pepe. Welcome to the standing committee on finance and economic affairs, Mr Pepe. We're pleased you could join us today.

Mr Paul Anthony Pepe: Good afternoon, Mr Chairman and members of the committee. My name is Paul Anthony Pepe and I'm a local landscape contractor. My presentation is probably a lot briefer than many others you've seen today. I appreciate the opportunity to speak before this panel this afternoon as a supporter of the proposed changes outlined in the Fair Municipal Tax Act, known as Bill 106. My reasons for wishing to go on record for my support of these changes are many. I am a supporter of municipal restructuring and of giving more financial controls over local issues back to the community, and I feel that this bill complements other legislation regarding this.

I'm also speaking as a small business owner who knows the frustration of being overtaxed and how the layers of taxes currently levied are posing a threat to small business survival. I'm also here as a potential first-time homeowner, and finally as a citizen of Thunder Bay who's concerned with the economic future of this city. I have a personal interest in how Bill 106 and other legislation will affect the resurrection and survival of downtown core commercial properties.

I'm aware that Thunder Bay municipal tax assessments are relatively up to date and on the surface there should

be little concern from local residents on the implications of this bill. However, I am also aware that almost one third of other municipalities across the province are having properties assessed at levels from the 1950s, 1960s and 1970s. While I lack the statistics to accurately put a dollar figure on what this means in lost revenue, I do know this: The reductions in transfer payments to municipalities, coupled with the shift in responsibilities by the communities for welfare, transit and other services, mean that communities must start looking to either cut services or find new revenue sources. Communities with outdated tax assessments, once reassessed, will provide the funds to adequately implement these changes.

However, there's a far more important issue and that is the issue of tax fairness. What these underassessed properties have amounted to is a subsidized property tax rate at the cost of other Ontario taxpayers. I cannot help but think that these municipal assessments being current, perhaps provincial transfer payments to these communities would have been lower as well over the last decade or two. Bill 106 will promote tax fairness that will ensure that all properties across the province will be assessed equally and more frequently, thus creating a level playing field for residential owners, farmers and business owners alike.

While I did see the danger of some of these grossly underassessed communities — the potential exists for residential and commercial property owners to experience economic challenges pertaining to any substantial tax increases they may face — I am pleased to see that the issue has been addressed with the inclusion of the eight-year phase-in period and a very reasonable 90-day assessment system. Furthermore, with the province taking over the funding of local school boards from the municipal tax bill, the savings to the municipalities will in some affected communities decrease the actual dollar amount of the tax increase. This, however, I believe is contingent on responsible municipal governments reinvesting tax savings and other revenues. It must be made clear to the municipal governments when dealing with the restructuring and with these new tax assessments to include any substantial tax increases within their budgets.

I believe that Bill 106 will also play an important role for small businesses. The reclassification of the properties outlined in subsection 7(2) allowing for six different classes, up from two currently, will allow for greater fairness to commercial property owners whose properties fall under more than one classification. Potentially, these would include landlords, multi-user buildings and contractors such as myself, who work from their residential properties. These properties logically should have their taxes proportioned to the size of each use as a percentage of the entire property.

This amendment to the tax law should ease confusion and confrontation between small businesses and the municipal tax offices in disputes over property use, and allow for more flexibility. This is especially important today due to the rising number of individuals like myself in the province who are self-employed and do carry out businesses out of our residences as well.

In the case of small business owners, it is unfair to tax the entire property at a higher commercial tax rate when a portion of their property also contains their residence.

I also firmly believe that the replacement of the farm tax rebates with a new lower rate of taxation is a much more simplified and cost-effective approach to the situation.

I agree with the repealing of the business occupancy tax as another step in the right direction of reducing the taxation burden to businesses, especially those who rent commercial space for their operations. It has been an unfair tax for both the landlord and tenant to shoulder. The new reality within the private sector has meant that small businesses require every tax saving available to them, not only to stay competitive but to stay solvent.

This aspect of the Fair Municipal Finance Act will prove beneficial to communities that have seen an erosion of their downtown cores as businesses have moved into newer retail and commercial environments. While the higher property taxes paid in these developments is offset by the increased revenue and better exposure, it has left a troublesome blight in communities like Thunder Bay, and that's decaying cores.

In Thunder Bay, for example, the topic of core erosion is now a daily subject for many who are searching for ways to resurrect these areas. Unfortunately, the more the commercial space is vacant, the lower the incentives are for young upstarts like myself to invest back into these areas. In time, this has eroded the market value of these properties, meaning that potentially they have been assessed a higher tax rate recently than they can realistically bring in.

By updating these commercial assessments at their current market value, these properties will become more attractive for investment, and commercial operators may now be able to rent or own with lower tax rates. Considerations made under Bill 106 allowing for assessment under the present value, not past values nor future speculation, would provide the catalyst for new development and investment from the private sector. I believe it will also go to help maintain historically active commercial neighbourhoods within the city.

Because properties under the act will be assessed on three-year rolling averages, the sharp tax increases due to sudden development surges would be minimized, offering a fair long-term rate to individuals and groups who have taken the risks of rejuvenating the downtown cores.

In Thunder Bay, we know all too well the effects of business leaving the cores and how that adversely affects consumer confidence. However, we also know that every new business that invests in one of these cores is noticeable and welcome. Offering a fair municipal tax rate is one important element in the health and growth of our community.

Changes to the equitable taxation of properties is long overdue and the introduction of Bill 106 is a positive step towards establishing a current province-wide assessment rate that will greatly benefit the ratepayer and the municipality alike. My personal interpretation of this act is that it will complement the Conservative government's agenda of restructuring municipal affairs, thus making the local governments more accountable on local issues while reducing the size of the government at the provincial level.

Bill 106 is an aid being given to the municipalities to help reduce the cost associated with this restructuring.

While some may feel that there is nothing but a tax shift and responsibilities to the local level, as a taxpayer in a community with fairly current assessments, I find it unacceptable that some other communities have not kept pace with these changing times and economic growth, giving their residents a subsidized tax rate at the cost of either commercial taxpayers or the Ontario taxpayers or indirectly funding their transfer payments.

1430

In preparing to speak before this committee today, I had the opportunity to discuss this with many of my friends who are also small business owners. To be very honest, I find a great deal of support among local business owners and ratepayers alike, particularly among people of my generation who want fairness in taxation, not overtaxation.

I have read the bill in its entirety and while I admit that I am not an expert on the legalese of the document, I do know this: It is thoughtfully designed to bring tax fairness to Ontario municipal ratepayers and is well thought out in its approach to softening, as best can be accomplished, the increase that some Ontario ratepayers will be facing.

The bill shows great potential as a tool to aid in the rejuvenation of core properties by eliminating the business occupancy tax and basing property taxes on the current market values. By themselves they may not cause private sector investment, but they will be an important tool in aiding it.

In summing up, this bill creates an even playing field for tax assessments across the province and for the next generation of taxpayers, who, I assure you, will be more concerned with fair and effective taxation than the present generation.

The Chair: That leaves us about three minutes per caucus for questions.

Mr Pouliot: Thank you, Paul, for your presentation. You support the bill; the people you talked to are supportive of the bill. There's an expectation that the law will achieve fairness and a decrease in taxes.

The person who was here before you is the manager and part owner of the Valhalla. As a matter of public record, he mentioned that $550,000 is what he forks over as his municipal share. Out of that, 30% — which is $165,000 — is the business occupancy tax. The Valhalla partners will no longer have to pay this. The Airlane is the same size or slightly bigger; Avenor, a lot bigger; Bombardier, big; Abitibi — and I can go on. If the Valhalla pays $165,000 less in municipal taxes, others will be the bigger winners, if you wish.

Somebody's going to have to pay something. You can tighten your belt and get rid of two police officers — that's already been done, but you can do some more of that; the manager goes on half-time. But there's been some streamlining over the years. It's not as fat as it used to be.

I had lunch today — and I want to share this with you and would welcome your comment, Paul — with a municipal councillor from the city of Thunder Bay. He says different departments are keeping tabs. From what they know at the present time — and it's inaccurate, because everything is subject to change, they're still negotiating with AMO etc, and what the new assessment will yield — although in your case you're current, so that shouldn't be the major factor.

Right now on the tradeoff, they're $53 million behind. That's the way they calculate things. So take 10%, 15%, 20% off. There are a lot of people where I live, in Manitouwadge, who are expecting, because they heard it said on television by the Premier — I mean, if you don't believe the Premier, who are you going to believe? He said by the year 2000, the reeve in the community should be able to announce that, "I will get, in my small house, a decrease in municipal taxes of 10%." Mike Harris said that.

As I travel around now, there's a little more doubt, because if I talk to the municipal leaders, they're saying: "No, no, no. Not a 10% decrease nor a 10% increase. We're costing the programs and this is not a tradeoff." They see it as more downloading.

You have expectations. You're in support of the bill, the intent and the principle, but in the final analysis when the other shoe drops — and I want to wish you well — I hope that in your support of the bill and your expectations as a citizen, an entrepreneur and a homeowner, you will not be disappointed when you look at the bill and you compare the final levies of April or May 1998 and you see that you're paying more taxes.

Thank you for your presentation, but please stay vigilant. Please stay alert. Old folks' homes cost a lot more money than education, perhaps; it's less predictable. So I want to wish you well. But when the big ones are paying less, somebody has to pick up the slack. There is no free lunch here.

Mr Rollins: Thanks, Paul, for your presentation and your confidence that you think it will be better. You're a landscaper. Do you have a shop you work out of?

Mr Pepe: I have a shop out of my home, yes. It's combination residence and commercial.

Mr Rollins: At the present time do you pay BOT?

Mr Pepe: No, I don't, not where I am. Many of my friends who are in retail and various other businesses in Thunder Bay do pay it. From that aspect, I do have a concern with that. Working out of my home, I do not personally experience that at all.

Mr Rollins: How much staff do you have working for you at the peak time?

Mr Pepe: Peak, in the summer: 11.

Mr Rollins: This is another thing that's quite a concern. You're running 11 people out of there at peak time; it's not year-round. It's a small business, there's no question about that; it's not a big business, but it's a good-sized business. Yet because you're running it out of your home, you miss paying that tax and as everybody says, the municipalities want more tax. They're going to be trying to make sure that we keep it on a level playing field and hopefully have enough to pay all their bills.

Do you see eventually down the road that you're probably going to have to start to pay on a different tax structure when you're working out of your home?

Mr Pepe: What my company's going through right now — we are putting together a proposal to have a proper commercial site for my business. One of the big

concerns we have is that suddenly we will be taxed at a commercial rate, which for a small business — what I'm looking at doing is having our nursery operations, our retail operations, our service operations and my residence on one rural property, just for convenience's sake. A very real concern is the tax rates we'll be paying out of that.

Currently, if I were to have to pay some sort of business occupancy tax rate, with the competitiveness of my industry and the nature that most landscapers do operate out of their homes in the Thunder Bay area, it would probably be detrimental to the survival of my business.

Mr Rollins: Because your margins are so tight.

Mr Pepe: Our margins are very competitive and very slim, yes.

Mr Rollins: Let's hope that we do the right thing and keep your faith.

Mr Phillips: That was a very thoughtful brief. Obviously you studied the bill very well because you know it well and you went through a lot of detail. I appreciate someone having the time to do that, as well, to get into that detail.

There's an organization called the Canadian Federation of Independent Business that is well regarded. They represent businesses across Canada; they've got good research. They're worried about the bill because they're worried that, for example, as the business occupancy tax comes off, it goes right on to the realty tax. I don't know whether they will be able to get at your residential property or not, but for other people who are paying business realty taxes, it will be put on their realty tax. So there will be a levelling. If you've got a higher business occupancy tax, it'll come down. You're fairly unqualified in your support for the bill; you think it's almost good without change.

Mr Pepe: Yes.

Mr Phillips: We've got a little bit of worry on our side that it's going to hurt, as CFIB does. They say, "Ironically, it's likely the elimination will harm our small business sector." Do you think we need to be worried at all about that, or just let her rip?

Mr Pepe: No, I don't think we have to. I know with the change in the law from the two-class system to the six-class system, I have read a little bit into the spreading, what will be lost from the BOT to spreading it among the other classes.

I still believe, though, in a lot of other communities with the province taking over the education taxes — in fact, I had a letter published in a local paper about three weeks ago about the restructuring. Just to give you a little bit of brief on that, I came with statistics for Thunder Bay, which essentially put $42.5 million back in the city coffers for the reinvestment into welfare, transit etc.

In cities like Thunder Bay and others, we can recoup and reinvest those statements adequately without any real tax increases at all. I think having the business occupancy tax removed quite honestly, especially in the downtown cores, will bring in smaller new businesses.

Mr Phillips: Actually, the experts say the opposite. I know that you've studied it, but the six classes, now — you know what the six classes are?

Mr Pepe: Yes: farmlands, forestry, managed lands, pipelines, rights of way.

Mr Phillips: They split commercial and industrial. That's the only difference for business. Every single municipality has told us, "Take the business occupancy tax and put it on commercial-industrial, and for small businesses the taxes go up; large they go down." But for you and your friends that doesn't concern you?

Mr Pepe: No.

Mr Phillips: Okay, that's useful.

As my colleague said, as we've gone across the province talking to municipalities, they believe when everything's done, education is taken off residential property tax, all of the seniors' housing, the seniors' care, the child care, 50% of the social assistance put back down and when you take into account the funds that the province says it's going to provide, which is about $1 billion minus $666 million, it's adding about $1 billion on to property tax. When we talked to the city of Thunder Bay, they say they've added $53 million of new costs, but this was as a result of their financial people looking at it in detail. You've done your own analysis that says they're wrong on that. Am I reading you right?

Mr Pepe: No. I was drawing comparisons with this $42.5 million, the tradeoff with the province taking over education taxes.

Mr Phillips: I think they said they've subtracted that and there's a —

Mr Pepe: Even so, what I read into it, the statistics I looked at showed that it was still a substantial savings for the city to be reinvested.

Mr Phillips: You should give those statistics to the city, because their financial officials believe it's actually a substantial increased cost to them and you obviously are working on different information.

The Chair: Thank you very much, Mr Pepe. We appreciate you taking the time to come in and make a presentation to the committee today. That concludes our time in Thunder Bay.

I have one point: Earlier it was requested that the research group provide information. It's been decided, I believe with everyone's agreement, that it would be more appropriate for ministry staff to supply that information.

Mr Phillips: Perfect.

The Chair: Thank you very much. That will be done in due course.

We will stand adjourned until 9 am tomorrow morning in Ottawa.

The committee adjourned at 1442.

CONTENTS

Monday 14 April 1997

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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Tuesday 15 April 1997

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Mardi 15 avril 1997

Standing committee on finance and economic affairs

Comité permanent des finances et des affaires économiques

Fair Municipal Finance Act, 1997

Loi de 1997 sur le financement équitable des municipalités

Chair: Ted Chudleigh
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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday 15 April 1997

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Mardi 15 avril 1997

The committee met at 0900 in the Delta Ottawa Hotel.

FAIR MUNICIPAL FINANCE ACT, 1997
LOI DE 1997 SUR LE FINANCEMENT ÉQUITABLE DES MUNICIPALITÉS

Consideration of Bill 106, An Act respecting the financing of local government / Projet de loi 106, Loi concernant le financement des administrations locales.

CITY OF OTTAWA

The Chair (Mr Ted Chudleigh): I call the meeting to order. I thank the committee and the deputants for being prompt this morning. Our first witness is from the city of Toronto — city of Ottawa. Pardon me.

Mr Gerry Phillips (Scarborough-Agincourt): We're off to a bad start, Chair.

The Chair: That was probably a bad way to start the day — the city of Ottawa, Ms Monkman, city treasurer. We have 20 minutes together, if you'd like to start. We'll fill any remaining time with questions.

Ms Mona Monkman: Good morning. Thank you for this opportunity to appear before you. I'm the treasurer of the city of Ottawa. Council has asked me to bring forward comments on Bill 106 based on our understanding of the draft legislation, legislation that is starting to be known as the three Rs: rates, ratios and ranges.

First, council is generally supportive of the proposed legislation, as it provides for municipal control over tax policy.

On the issue of who sets tax policy, while council is generally supportive of the need to maintain equity in tax policy across the community of interest that is Ottawa-Carleton through the setting of tax policy at the upper tier, some specific concerns must be taken into account in designing the provincial parameters. Specifically, mechanisms must be in place to minimize the ability of certain municipalities within an upper-tier structure to unfairly shift the burden of taxation to prominent property tax classes in neighbouring communities. Local municipalities within a two-tier structure should have input into the tax policies developed by the upper tier.

On an issue that is not specifically addressed in Bill 106 but which flows from education reform and which can have a significant impact on tax policy at the local level, council deems it imperative that the retention of payments in lieu of taxes presently collected on the basis of the education mill rates continue to be an integral component of the financing of local government and that these funds must continue to be used to support local municipal purposes.

We've been told by Minister Eves, in a letter dated March 18, 1997, that he understands the current importance of payments in lieu of property taxes for education purposes as a source of revenue for the city of Ottawa and that the Minister of Finance will keep council's concerns in mind as they review payments in lieu of property taxes, how those payments are shared and related issues.

By way of background, I would like to indicate to you that this issue surfaces from the present situation whereby lower-tier municipalities retain the school portion of payments in lieu of property taxes. For the city of Ottawa, a very significant portion of our net budget is funded by this source — over $50 million. Payments in lieu represent more than 25% of our net budget. With the announcement that the province will control the business component of education property taxes, the city of Ottawa is concerned that PIL revenues will be removed without providing the tax room for us to increase our tax base by a corresponding amount. Without this, it would require a 48% tax increase for the average resident to recoup those lost revenues.

Further, the province must recognize that municipalities in Ottawa-Carleton are unique in their reliance on payments in lieu of property taxes as a funding source, and that means municipalities must be consulted immediately as to the development of the criteria and methodology for the establishment of provincial ranges for tax ratios and in any revisions to the methods for assessing land as they pertain to exempt properties.

Turning to another issue, there is a need for the province to design a comprehensive communication package for municipal councils and taxpayers on the changes proposed under this legislation. This communication should be completed by the fall of 1997.

Regarding the business occupancy tax, the province must communicate more effectively why the business occupancy tax is being eliminated by publicizing that the tax is being eliminated to afford a more secure and rational basis of tax collection. In addition, the province should publicly announce its intentions with respect to the recovery of lost education funding revenues resulting from the elimination of the BOT so that businesses and municipalities may begin to plan. In Ottawa, approximately 50 cents of every business occupancy tax dollar goes to fund education.

On the vacant property issue, we need adequate provision so that the fair assessment of vacant property can be made in order to prevent the potential widespread shift of taxation burden to other vacant properties. You will likely hear of this issue from others.

Finally, council believes that it is imperative that reassessment data and impact studies be finalized and communicated with sufficient lead time for municipalities to make their tax policy choices and to prepare municipal budgets for 1998. Taxpayers must be informed in a timely basis of their tax bills for 1998. In the event this information is not available on a timely basis, and in a format easily understood by taxpayers, consideration should be given to postponing the implementation of the legislation until 1999.

The Chair: That leaves us about four minutes per caucus. We start with the official opposition.

Mr Phillips: You've raised a number of very good points. Our problem here is that we've got two more days after today of public hearings; we've got one day of what we call clause-by-clause and then the bill's done. If we don't pick up on these concerns of yours quickly the bill becomes law and away it goes.

My understanding of the bill right now is that vacant property will be assessed, if it's a commercial vacant property, at the commercial rate and will be taxed at that rate regardless of whether it's empty or not. I believe when the bill is passed that the assessors will have no choice but to do that. That's my understanding. I think the bureaucracy have heard the concerns and maybe they have some suggestions on it.

On the business occupancy tax, it is clear to us, at least us in the opposition, that when that's gone and that's part of the bill, virtually every municipality's plan is to recover the revenue, because they need the revenue, from the realty tax on commercial-industrial.

I'm generalizing now, but as you reallocate that on the realty tax, larger businesses, retail chains — I keep using banks; banks get very offended with that — banks and what not pay a lower tax and smaller businesses pay larger taxes. The government has said, "Don't worry about that because sometime down the road, we're going to bring in some more legislation that will set up two classes of commercial, large commercial and small commercial, and you can charge."

Has your council taken a view on whether that is a good idea, two classes of commercial, whether we should be trying to incorporate that in this bill to give you some idea for planning purposes? I notice you mention here you're sufficiently concerned that you're at least raising the question of delaying the implementation for a year if it can't be properly done. So my question is on BOT and whether your council has discussed the implication for small business, large business and whether your council would support in this bill establishing two classes of commercial.

Ms Monkman: We have discussed the issue, and I did indicate to council that there was some talk of assistance for small business. In terms of the understanding that I had of how that would be done, there had been some discussion of perhaps a first X square feet exempted of assessment.

Council is sufficiently concerned as to the impact on small business with this elimination and other changes that that would certainly be something that would be welcome.

On the elimination of the business occupancy tax and where it goes, the general understanding I believe of most municipalities is what you have said, that it will be passed on to the commercial-industrial property tax class and hence passed on through the lease agreements. That's our understanding, and I believe that with the upper-tier, lower-tier tax-policy-setting mechanism, that decision will ultimately be made by the upper tier in this region because it will be a decision affected by tax ranges and ratios, not specifically the mill rate. I may be wrong about that, but that's my general understanding of how this would work in this system.

0910

My main issue with the business occupancy tax has been the communication element around it. When the tax was eliminated, the communication from the province was essentially that there would be a cut for businesses and municipalities and politicians will be under some significant pressure by various business groups to effect that cut. In Ottawa-Carleton, that's $60 million worth of money that's being raised in the business occupancy tax: on our own budget, $11 million; the region's $19 million; and the education component is the half that I was speaking of.

I believe the province has probably already started to think about what they will do to recoup the $30 million in lost business occupancy tax on the education side. I don't believe that's a municipal decision, but I do believe — that was one of the points I was trying to raise — that has to be communicated. As soon as that decision is made, it must be communicated because businesses will be pressuring various politicians not to replace that BOT. Half of that decision is not a municipal decision. Half of it is a provincial decision.

Mr Phillips: That decision was made, by the way. You may not be aware of it, but it has been made.

Ms Monkman: It was my understanding that it had been made, although I haven't seen anything formally communicated to that effect.

Mr Gilles Pouliot (Lake Nipigon): In your comments, your council is generally supportive in number 1 and number 2, and then in the same breath, without pause, you mention the 48% impact. If I were a resident, an average person, a homeowner with equity in a house, I would be concerned, madame.

The bank towers, the large industrial sector get a break. The commercial sector is saddled with the education levy. They pick up the slack on the exchange. This is not revenue-neutral. Madame Monkman, Bill 106 does not take practice in isolation; it's meshed and webbed with other pieces of legislation.

Many people believe that they'll get a tax break. Some homeowners have listened to the Premier saying that by the year 2000, you, as the treasurer, should be able to pass on a 10% decrease at the property level. The small and medium-sized businesses believe that they too will get a tax break, and obviously the focus here is to give the industrial and larger sector a property tax decrease as well.

With your science and your knowledge, would you please explain to me where the money is going to come from? Unless you get a cheque from the government,

after you have exercised your interim tax levy, going fully, I anticipate, 50% to what the statutes allow you, then in the spring of 1998, when the downloading comes through, and you will have been paying for this since January 1 of next year, how will you face the taxpayers?

Ms Monkman: Several questions: Yes, it is not a revenue-neutral impact, taking all of the pieces of legislation together. You mentioned the downloading and the changes on that front. We do see that in our own municipal budget there will be approximately $4 million that needs to be found, which is about 4% of our budget, and how will we do that? We will likely do that through further downsizing and review of municipal services.

Secondly, the 48% impact is also something that is not specifically in this legislation, Bill 106. It's an impact of potential further legislation around how grants in lieu of taxes are shared, payments in lieu of taxes, whether they have to be shared with the school boards and education financing. That is a big impact and I can't begin to have the answer of how we would accommodate that.

The third issue you mentioned was the impact and the fact that the banking institutions will be better off. Yes, there will be some if the business occupancy tax is added to the commercial-industrial rate. It would probably be done at a general rate, somewhere around 30% in our case, whereas, some institutions like the banks pay 75% right now. There will be winners and there will be losers.

Mr Pouliot: The 4% savings on the overall can be found within the shop. I thought you had already downsized and you were really, really lean and aggressive in your pursuit to reconcile the bottom line. Am I to take it that there is a floater here which represents a full 4% and that can be trimmed without losing services?

Ms Monkman: I don't suspect that it could be trimmed without losing services. We have downsized significantly.

Ms Isabel Bassett (St Andrew-St Patrick): I was interested first of all to see that your council generally is supportive of the proposed legislation as it provides for municipal control over the tax policies. So if you apply that to the BOT, I just want to point out before I ask you the question that although there will be probably some money that you'll have to spread around — you'll have to make up the lost revenue — there is going to be considerable savings, $200 million that we lose already in BOT taxes that we can't collect. Secondly, several people who have made presentations here have said that the BOT is an administrative nightmare and they figure that considerable administrative costs can be saved. So there will be some money. It's not as great as you think.

What I wanted to ask you about: You say that mechanisms must be in place to minimize the ability of certain municipalities within an upper-tier structure to unfairly shift the burden of taxation to prominent property tax classes in neighbouring communities. Could you explain what that means to you? Could you go over it again, the fact that the upper tier has the ability in some cases to —

Ms Monkman: Quickly on the BOT, yes, we do agree that it is an administrative nightmare and there is some benefit to changing that type of taxation.

On the shifting issue, our concern is that in a region where we have different municipalities with different types of assessment — Ottawa has the largest commercial assessment base in relation to the other municipalities in the region; we don't have as much residential assessment — when you're looking at tax policy, you will be looking at shifting the burden between classes. To the extent that we member municipalities of the upper tier have a different proportion of taxpayers in each one of those tax classes, there may be some room for shifting or some dispute as to where those burdens go. I believe that it will to some extent be constrained by the provincial ranges that are to be established. The problem is we don't know what the details are right now.

Ms Bassett: So there's a need for greater communication. Thank you.

The Chair: Thank you very much. We appreciate your coming in and making a presentation today. It's very valuable to have that kind of input.

ASSOCIATION OF MUNICIPAL CLERKS AND TREASURERS OF ONTARIO

The Chair: The next deputation is the Association of Municipal Clerks and Treasurers of Ontario, Mr Simons, president. Welcome to the standing committee on finance and economic affairs. We appreciate your taking the time to make your presentation. We have 20 minutes. If you'd like to make your presentation, we can fill any remaining time with questions. Would you please introduce your associates for the purposes of Hansard.

Mr Larry Simons: It would be my pleasure, thank you, Mr Chairman. My name is Larry Simons. I am the president of the Association of Municipal Clerks and Treasurers of Ontario, which you will hear me refer to by its acronym, AMCTO, from here on in because it's much too long to say repeatedly.

With me this morning is Don Reid, the CAO and treasurer for the township of Osgoode and a fellow AMCTO member. On my left is Ken Cousineau, the executive director of the AMCTO.

Last week, the AMCTO's past president made a presentation to this committee in Toronto. I am going to be building on that presentation, reinforcing our key concerns and again offering our assistance, the assistance which, for effective implementation of this legislation, frankly only AMCTO members can provide.

As Mr Shaw, our past president, indicated to you in Toronto, the AMCTO is the largest voluntary professional association for municipal government managers in Canada. Clerks, treasurers and CAOs are self-regulated professions and AMCTO is the professional certification body in Ontario. The association has been in existence since 1937 and our members are now represented in about 93% of the municipalities of Ontario.

0920

Our members — clerks, treasurers and CAOs — provide the professional, expert administrative support required for the efficient, continuous and professional delivery of municipal services. Everyone will be counting on us for the effective implementation of not just Bill 106 but just about every other piece of municipally related legislation that has been introduced recently.

We believe we should be heard before, not after, this legislation is advanced, since we are the implementers of

Bill 106. We believe we have a duty to flag concerns and issues that could be problematic once Bill 106 is passed and applied across Ontario. What we'd like to do is provide you with some foresight into this particular element of restructuring of municipal financial affairs.

Of course I begin by expressing AMCTO's appreciation for the opportunity to appear before this committee and to put our views on Bill 106 before you and on the public record.

I have to start by saying that AMCTO has very grave concerns regarding the proposed implementation time frame of the new legislation. Not unlike the previous speaker, we are concerned about the lack of sharing of information. There must be more information sharing, particularly given the timetable for Bill 106. To perform the functions effectively, we need all the information they can get and we need it as soon as possible.

The AMCTO relayed this concern to both Minister Eves and Minister Leach in a letter dated February 24, 1997, and in a press release which was issued February 25, 1997. The message was clear: Any further delays in information sharing could compromise the January 1998 implementation deadline or, worse, create an administrative nightmare. To date, neither of those ministers has responded.

Our detailed concerns and recommendations regarding Bill 106 can be found in a separate submission which I handed to the clerk and I believe he has distributed to you this morning. The presentation today will focus your attention on some priority issues specifically relating to amendments in Bill 106 which relate to the Municipal Act.

In today's session, there are four key issues I would like to touch upon: interim billing; apportionment; ownership change during the phase-in period; and cancellations, reductions and refunds of taxes.

The first concern, relating to interim billing limits, relates to section 55 of the bill where it pertains to section 371 of the Municipal Act. It provides the minister with the authority to establish interim billing limits for any particular taxation year.

The crux of this matter is in the transition. Municipalities could be faced with a significant gap in their taxation revenues in 1998. We could be forced to borrow funds and the pay the price of doing that. That situation can be and should be avoided.

AMCTO recommends, therefore, that the minister prepare and file a regulation providing municipalities with the authority to raise up to 50% of their 1998 estimates from a taxation by way of an interim levy.

Our second issue relates to apportionment. AMCTO believes that apportionment of costs among municipalities should be based on weighted assessment values rather than assessed values. This is especially true with respect to county- and conservation-authority-related apportionments.

The need to follow the weighted assessment approach can be illustrated by considering a municipality that has a high percentage of farm assessment. Using weighted assessment, its apportionment would be calculated based on the taxes actually recoverable from conservation and farm properties.

Under the current proposals, if the assessed value is used, not a weighted assessment, the municipality could be apportioned costs based on values that would only attract 25% of the revenue that would come from properties with similar assessed value in a residential class. This would create a situation where the remaining property owners would be required to further subsidize farm and conservation properties with respect to apportioned costs.

We're seeking a solution to this problem that has fairness. We think taxpayers will be seeking one too, and we should anticipate that requirement. AMCTO therefore recommends that apportionment be based on the sum of the weighted assessment and that weighted assessment be based on tax ratios as applied to the different property classes.

A third issue revolves around the fact that the phase-in of property tax changes under the revisions proposed in Bill 106 are owner-based — that is, the changes in the tax amount are based on the value of the property — but the decision to phase in the changes are based on softening the financial impact on the owner by spreading it over a period of years.

Subsection 372(6) of the Municipal Act, which will be created by section 55 of Bill 106, provides that council may exclude a property from the phase-in or from the continuation of the phase-in provisions of a bylaw based on a change in the use or character of the land or its classification.

AMCTO recommends that the same option should be provided to council if there's a change in ownership. The new buyer ought to be aware of the true assessed value of the property and therefore the true applied tax rate. Consequently, a new buyer should be subject to the full extent of the applicable property tax. The application of this provision should be determined at the discretion of the municipal council.

In addition, the legislation should clearly state that this same provision can be applied to properties where a new structure is built or where, although there may not be a change in the use, an addition is made to the existing use to increase the size of the use or the value of the property. It is unclear at the moment whether the existing provision relative to the character of the land would cover those kinds of circumstances.

Finally, our fourth issue relates to section 442 of the Municipal Act. Section 442 has been around for a long time, and it provides municipal council with the authority to cancel, reduce or refund property taxes on specific properties for a number of specific reasons.

Clause 442(1)(e) provides that an application in this regard can be made by any person "who is unable to pay taxes because of sickness or extreme poverty." For years, municipalities have recognized that this legislation is unworkable. Issues related to sickness and extreme poverty should be dealt with outside of the property tax structure and could be dealt with by municipalities in ways much more responsive to individual needs, such as general welfare assistance, other social service programs or perhaps even section 113 of the Municipal Act, the municipalities' general ability to make grants.

AMCTO recommends the repeal of clause 442(1)(e) of the Municipal Act as part of Bill 106.

Furthermore, with respect to clause 442(1)(g) and issues of seasonal business, AMCTO understands and agrees with the intent of this amendment, but we are concerned about the removal of the words "except where the business was intended to be or was capable of being carried on during a part of the year only." The concern relates to properties that are, by their nature, used on a seasonal basis.

AMCTO would recommend that the phrase "except where the property was intended to be or was capable of being used for part of the year only" be added after the word "property" in clause 442(1)(g). This would prevent seasonal use properties from claiming tax reductions or rebates based on purported renovations during what would normally be the non-use period of the year.

I want to reiterate that the recommendations we've made this morning and that I've included in this presentation are aimed at improving operational aspects of Bill 106.

In the interest of time this morning, we have only addressed selected concerns and recommendations regarding the proposed legislation. We have prepared quite a lengthy list of issues in detail. We have raised them with ministry officials and we have supplied them to you today.

AMCTO fully recognizes the need for municipal reform. We're not exempt from the paradigm shift that all governments and even the private sector are confronting. We wish to be actively involved in that reform process. We look forward to appearing before this committee again as the reform process continues to unfold. If you wish to hear our views on any aspect, we would be very glad to hear from you. Thank you very much for your attention.

0930

The Chair: Thank you very much. That leaves us about three minutes per caucus for questions.

Mr Pouliot: A renewed pleasure, gentlemen. Larry, it's always a pleasure. We've been doing battle for a number of years now.

Mr Simons: Nice to see you again, Gilles.

Mr Pouliot: The people you represent are front-line. You're better equipped than perhaps anyone, by virtue of tenure and also dedication, to see what's happening, to look at the flow of services and the funds necessary to provide them.

None of us at the committee are opposed to changes that simplify and bring forth a better degree of fairness and make it easier to collect. No one I meet is opposed to changes; consciously or subconsciously, people will readily acquiesce. But there's also some threshold, and I'm afraid that in a short period, you surpass the capacity of society to assimilate and digest all the changes. We can only take, as people, so many changes at any given time. It has to do its thing at the marketplace.

I want to go back to one small focus, the phase-in provision. You know in the real world that you must pay the banker. You started by saying, "Give us the ability to borrow." In the phase-in situation, the bankers will help you in your decision-making vis-à-vis the phase-in. For instance, if I've been paying too much in tax, you owe me and I will not wait a period of eight years; I've already been ripped off. If I'm to pay taxes, if I've been paying too little because it has been decreed, eight years is not enough. You have to reconcile this at the marketplace in the real world. If you owe me taxes, there will be no thanks to the government, I can assure you: "What took you so long and where's my interest?" If I have to pay more, it's "May your children walk backwards." You know: "A curse on your house."

I want to wish you well, but there are so many changes. If you're not getting a response from the government, Larry, do not despair. They don't have the answer yet, because they have to deal with Bill 103, amalgamation, Bill 104, education; the sewer and water act has to be revived. They're under a state of siege in a very short time. I want to wish you well.

If you get the answers, do you want to give them to Mr Phillips, Mr Grandmaître and myself? We wish to have them too.

Mr E.J. Douglas Rollins (Quinte): Thanks for your presentation. It's nice to see that you people have come forth with some good, thoughtful ideas, given that you're the people who implement this bill when it gets done with.

You have a concern that you're not going to be allowed to collect half your taxes prematurely until you realize — you're under that condition at present. You put an interim tax bill out for two or three payments, roughly half the taxes. I can't see why that can't continue the same it has in the past. You're bringing it up here, but we as a government are trying to give the municipalities back that foresight. You people know you need that money in that part of the year and the taxpayers realize they have to pay their taxes, so surely to goodness you'll send out an interim tax bill even though you don't know the exact amount. You'll send one out so that they will be starting to pay part of their taxes.

Another area that many people have presented to us about is the BOT, particularly if there's big and non-collectible tax. A certain portion of that is non-collectible, and I think putting the onus on back the assessment and on to the owner will help out. By the way, do you feel you're not collecting a high percentage of your BOT?

Mr Simons: It's fair to say that the business occupancy tax attracts an inordinate share of your collection activities, no question, and that's simply because it's not guaranteed by property in the same way that property taxes are secured.

Mr Rollins: Does it also eat up quite a bit of your time as far as your office is concerned?

Mr Simons: I work in a very small office where people would be involved in a wide range of things. No, it doesn't occupy a great deal of time, but I am aware from our members that considerable portions of their collection efforts are directed towards the BOT. I have not heard of anyone suggesting that the elimination of this particular surtax is a negative move at all. How it fits into the overall package and how the timing of this is done is a very real concern, but that particular element is not.

Mr Joseph Spina (Brampton North): I gather that fundamentally there is an underlying support for the thrust of the bill. Did I read that correctly?

Mr Simons: We understand the need to reform municipalities and municipal finance in particular. If you could tell me in one sentence exactly what the thrust of the bill is, I could probably tell you whether we support it, but it has a number of different initiatives.

Mr Spina: A fair assessment system is the fundamental underlying purpose of the bill, the objective we're trying to achieve.

Mr Simons: Understood. We had a commission in Ontario that took about this much to define "fair" not too long ago. I'm not sure I'm in a position to improve on that.

Mr Spina: Maybe I can ask you to clarify, and I appreciate your conclusion. You said that your recommendations are really aimed at improving the operational aspects of Bill 106. That's why I perhaps was being presumptuous by saying you fundamentally supported the bill and the need for change, that you were just concerned with some of the these operational aspects which you brought to the forefront.

Particularly, you were looking for some information from the ministry to be able to implement the changes in a timely fashion. I'm looking for some help from your perspective about the time frame that would be best for you, knowing that this is tentatively to be implemented January 1, 1998. We're in the process now of trying to gather numbers on municipalities, but those numbers come from people like you. This is what we're in the process of trying to get. How can we play that one better?

Mr Simons: We have taken the position — this was at the end of February — that the time to have the information in the hands of municipalities so they could make the kinds of tax policy decisions they need to make and plan effectively for 1998 was getting extremely short, and that was the better part of two months ago.

I believe we are really bumping up against the limits of whether or not this can be effectively implemented by municipal treasurers in 1998, particularly given that we are not to have, apparently — as of now, at least — even an assessment roll in our hands before the end of April 1998.

A colleague of mine is fond of saying that our job is really quite simple, that you only have to know two things: What are you going to spend the money on, and how much assessment do you have to raise it on? As of this moment in time, we don't know either of those things in any comprehensive way for next year.

Mr Phillips: My background is business — I used to have three companies and all that sort of stuff — and I keep saying to my business friends that government is giving business a bad name. We're in the same boat you are: We can't get an impact study out of them. We've got to approve this bill. People come and say, "We are supportive of the bill," and then they go on with 10 major problems with the bill.

It isn't a question of whether we've got to change; it's whether this bill works. You must despair when you come in here and there's no problem with interim billing, according to the government members, when you've just told us there is a huge problem. We know what the problem is, and that is that you right now have to send out your interim bills for 1998 on the basis of previous background; you cannot guess and estimate.

What you're asking us is the authority to send out an interim bill based on your best estimate so you don't run into what right now is going to happen. Without any question of a doubt, your phone will be ringing off the hook from probably about May 15 to May 30, when you've got to send out your real bill next year, 1998. You're begging for an opportunity here and you're being told by the government: "Well, you don't understand the bill. You can already send your interim." You can't do that without a regulation change.

0940

Mr Spina: All the more reason to get it through.

Mr Phillips: Well, all the more reason to get it through, but you've got a gun to our head. You won't tell us what's there. Here you've got the experts telling us the changes that have to be in the bill. You're saying, "Get the bill through," but they're saying, "Make some changes, apportionment." You are going to penalize some municipalities and reward other municipalities unfairly.

I'm sorry to be angry, but this is a classic case, the government saying, "Get this bill through," and you, the experts, coming to us and saying — like apportionment, and I think you make a great case here; interim billing, I think you make a great case here; the ownership, you probably have a good case here, I just have to understand it a little bit better; and the cancellations, reductions. But the problem we face is, "Get on with it, get on with it," when we should have had this bill six months ago so we could deal with it on a sensible, logical basis.

Anyway, my colleague has a question on something we're both quite interested in.

Mr Bernard Grandmaître (Ottawa East): You were concerned with section 12 of Bill 106, which repeals subsections 19(1), (2), (3), (4) and (5) and provides the option for the current value of land to be related to its current use. Can you be a little more precise and give me examples of your concern on section 12?

Mr Simons: These are the current use provisions as it relates to that?

Mr Grandmaître: Yes.

Mr Simons: To be honest, I've not reviewed that section personally in a great deal of detail. The report you are reading was prepared by an advisory group. Perhaps my colleague can help me in this area.

Mr Don Reid: No, I can't. I'm being honest here.

Mr Simons: I'm sorry, I do apologize for that. We will certainly give you a little more illustration of what that is, we'll follow that up, compared to what's in the brief.

Mr Ken Cousineau: Part of our concern in that area is that we're not sure what the current use is going to be based on. Is it the use of the property? Is it the zoning? What sort of criteria are going to be utilized to determine current use? That's a problem.

The other aspect of concern there is that the upper tier will have authority to apply the current use provision and upper-tier governments can delegate that authority down under the bill, and there's some concern about municipalities sort of whipsawing one another in terms of applying

that principle or not, again based on the criteria that might be set up in regulation.

Mr Grandmaître: Do you believe that this concept will be revenue-neutral for our municipal governments?

Mr Simons: We've seen an awful lot of numbers from a lot of municipalities. Everyone seems to use a different set of assumptions in order to come up with some numbers. How to draw a picture province-wide, I honestly don't know, and that takes us right back to the main point, that without a comprehensive look at the information, it's very difficult to make these kinds of projections.

Having said that, no matter what assumptions are used, no matter what municipality they're using, I have yet to see one that suggests it's neutral or positive for the municipality.

The Chair: Thank you very much, and we appreciate the association of clerks and treasurers making a presentation today.

NEPEAN CHAMBER OF COMMERCE

The Chair: We now welcome the Nepean Chamber of Commerce, Mr Wilson. Welcome.

Mr Robert Wilson: Unlike the previous presenter, I'm not going to use the initials and acronym for the Nepean Chamber of Commerce. There are too many varying degrees of connotation to that in this area.

Members of the committee, the Nepean Chamber of Commerce, on behalf of business in the city of Nepean, thanks you for the opportunity to present our views to the standing committee on finance and economic affairs in regard to Bill 106, An Act respecting the financing of local government, or the Fair Municipal Finance Act.

Our presentation will deal with issues, in general terms, that the chamber has identified in discussions with its members and other interested parties in the business sector. Our suggestions will deal only with those issues the chamber identifies as directly affecting business.

The Nepean Chamber of Commerce supports the concept of a uniform property tax assessment system across the province based on a current value assessment. When Statistics Canada public sector finance data for Ontario indicates a 20.8% increase in property taxes for the period 1990-91 to 1994-95 as a source of revenue for provincial and local government revenue, it's time something was done to implement property tax reform, especially as it affects business.

Bringing the proposed changes closer to home, the city of Nepean, which has had a market value assessment system in place since 1993, complete with a phase-in adjustment, may have its competitive position vis-à-vis Renfrew county enhanced. That county's lower taxes are partly due to the fact that its base years for assessment are from an earlier period than Nepean's and reflect less than a current market value.

As well, the results of a 1995 Canadian Federation of Independent Business survey of 4,750 Ontario business owners "found that when measured as a percentage of estimated property value, commercial and industrial property owners across Ontario pay double the rate of tax, per $100,000 of property value, compared with residential properties." In terms of Ottawa-Carleton, the results were not significantly different.

Anything that has the potential to reduce this kind of adverse tax load on business, our only economic engine, is welcomed. We've benefitted from the first results of reduced taxation in Ontario: an increase in jobs, a positive influence on the economy, for government revenues and for the future job prospects of our youth, the entrepreneurs who will build Ontario's economic future.

Business must be encouraged to locate, or even stay, in Ontario. Allowing the current system of property tax on business to continue would be counterproductive to this concept. Business can no more afford high property taxes than any other group. When one considers that most of the jobs are generated by small business, the current burden is even more unfair. Small businesses can't achieve economies through downsizing as easily as large corporations, nor can they easily pass on increased costs to consumers in the highly competitive markets they face. All businesses, large and small, have already made all the sacrifices they can. Profits have been squeezed almost dry. Property taxes are fixed costs, and those costs can't be reduced, unless one goes out of business, or made fairer except through the legislation that is being proposed.

The apparent current upswing in business confidence and productivity can only be augmented by the proposed legislation in the act. If only the changes to the property tax system were coupled with legislation making Ontario a right-to-work province, Ontario would be well on the way to ensuring its economic future.

The repeal of the business occupancy tax is welcome. Business has long lobbied for the elimination of this discriminatory tax. The possible removal of business property tax inequities between or among municipalities is a positive move.

Under the proposed revisions of the act, municipalities will be able to recover their share of BOT revenues by setting different tax rates for different classes of property, as we read the act. The Nepean chamber is concerned that no data exist or have been prepared as to the potential effects of this change on business within municipalities.

Unless the replacement of tax revenues lost through the repeal of the BOT is carried out under very strict guidelines developed by the province, specific to municipal areas, there is a potential for trouble, and the government must not shirk its responsibilities in this area.

The Nepean Chamber of Commerce believes that specific, enforceable regulations must be developed by the province to ensure that revenue lost through the repeal of the BOT is not replaced by other taxes, real or hidden. Municipal governments must replace current BOT revenue through methods other than taxation.

We all know that taxes targeted against business are job killers, and all of us also know that municipalities generally, with a noticeable exception in the case of the city of Nepean in this region, have not been able to keep control of the current property tax system. The province must take control; to do otherwise abdicates responsibility.

The Nepean Chamber of Commerce supports the concept of the Assessment Review Board in determining the outcome of disputes over property assessment or classification. This process is far more equitable than the current OMB process.

Other issues are entangled within the provisions of the act that have an impact on property tax: downloading of social service costs to municipalities, uploading of education costs to the province, downloading of road systems maintenance. These are not issues that can be decided or enacted in isolation from the potential impacts of the act. Provisions must be developed and included in the act that deal with these entanglements.

In conclusion, business is and must continue to be the prime economic generator for this province, and the proposed legislation goes a long way to improving the current situation. The Nepean chamber supports the proposed act, but we have some concerns, which we've outlined. We anticipate these concerns will be addressed during committee deliberations and in any potential revisions to the proposed legislation.

The Nepean Chamber of Commerce will continue to exercise due diligence in regard to the progress of the proposed legislation, and we will continue to make our voice heard on behalf of business. Thank you for your time and attention to the presentation.

I'll just take a minute to introduce my colleague Buck Arnold, who is president of our chamber of commerce.

0950

The Acting Chair (Mr Joseph Spina): Thank you, Mr Wilson and Mr Arnold, for the presentation. We have about three minutes each, and we'll begin with the government side.

Mr Jim Brown (Scarborough West): On page 4 of your presentation, you say, "Municipal governments must replace current business occupancy tax revenue through methods other than taxation." Can you elaborate on that statement?

Mr Wilson: As Ms Monkman said, we don't want this to be a replacement of taxes. We've got to reduce tax on business, so therefore, get it through restructuring, redownsizing, this sort of thing. There's one excellent way to achieve it in this area, and that of course is to eliminate regional government and just create three municipalities, and then we don't have all those costs; it's a tremendous savings for current payments that way. But we have to wait and see what's going to happen there.

Ms Bassett: I'm glad you say the repeal of the BOT is welcomed. Business has long lobbied for the elimination of this discriminatory tax. Is it universally lobbied for, the elimination of the BOT, in this area?

Mr Wilson: I think I'm on safe ground there. I was talking with Catherine Swift from the Canadian Federation of Independent Business, and that is indeed her opinion, that it has long lobbied to get rid of this particular tax.

Ms Bassett: Have businesses said consistently that it was an unfair tax?

Mr Wilson: Yes. You can take a look at any business, any major business or any small business, and they will say it is unfair; the way it's applied too, in some cases.

Ms Bassett: The new system should reduce those inequities.

Mr Wilson: Well, it depends on how it's going to be recovered too, because I don't think we've ever seen municipalities lose tax revenues easily.

Mr Phillips: You're the NCC, are you?

Mr Wilson: No, we're the Nepean Chamber of Commerce.

Mr Phillips: I know. I'm just kidding.

Mr Buck Arnold: Yes, we are the NCC.

Mr Wilson: Don't we wish we were, in this area.

Mr Phillips: Everybody says the business occupancy tax is a bad tax and all those sorts of things. But here's the situation you face: Every single municipality we've talked to has said: "Frankly, we just can't give up the revenue, as much as we might like to. We are going to have to recover it." Every single one has said they will recover it. Nobody said they were going to put it on residential property taxes; it's all going on commercial and industrial.

When we pass the bill, and it will be passed, we have to deal with the implications. Business should not be surprised when the business occupancy tax is recovered 100% off commercial and industrial. It will shift by business, because if you're paying a high business occupancy tax now, you'll get a good break; if you're paying a low business occupancy tax, you'll probably get increased taxes.

CFIB, the Canadian Federation of Independent Business, expressed real concern about this. They said that ironically this will lead to increased tax on small business. We have to ask — we don't have to, but we do in opposition at least — "Where does this lead? Here's the result." The Nepean Chamber of Commerce is going to accept that. You may say, "Well, we don't want that to happen," but if we're told by everybody it is going to happen, we've got to at least be honest with you.

What will your members say when the business occupancy tax is put on to the realty tax and small business pays more and large business pays less? Will they be happy with the situation —

Mr Wilson: I rather doubt that.

Mr Phillips: — or angry?

Mr Wilson: I've tried to outline here — and it's as much in answer to your question as it is a point to be made — that in fact it's time we don't replace these sorts of things. If there have to be services cut, then it's time they were done, period. If you have to replace it all, then there's something wrong somewhere. I think there are savings to be made still in terms of downsizing. If you could take this area and reduce it to 12 politicians, locally elected, in terms of running whatever it is, what a marvellous saving it would be, and they wouldn't have to replace all the lost revenues, because they wouldn't have so many expenditures.

Mr Phillips: You're making the point that the city of Ottawa made earlier this morning about the need for communication. I know what you'd like. We're told, though, that the municipalities are going to have to recover the revenue and it will be put back on business. If that is going to be the outcome of the bill, have you any suggestions how we might revise the bill to make you more comfortable?

Mr Wilson: Just give us some facts and figures first so we can make up our minds.

Mr Phillips: I'd like that too.

Mr Wilson: I think that's one of the points we've made, to get some information.

Mr Phillips: That would be good.

Mr Pouliot: Good morning, gentlemen. The subject matter, as an aside, as a side show of fewer politicians, be it at the school level, at the provincial level and the municipal level as well, has been reduced. A great deal of effort has been channelled that way, so I think this issue should be domiciled elsewhere for a while, with respect. I know there are still too many, Mr Wilson. They're a much-maligned profession. It's a vulgar trade that some of us exercise, but it has to be done. The alternative is not to be contemplated.

I will not go to the right to work or the right to a job in your presentation. I had written "Alabama," but that's for another time and another session and debate.

The people you represent, your membership, is comprised mostly of medium and some small business?

Mr Wilson: Yes.

Mr Pouliot: And some large, but they would be, naturally, in the minority?

Mr Wilson: Yes.

Mr Pouliot: When you converse with them, are they under the impression that they will get a property business tax decrease?

Mr Wilson: Some of them, yes. I think they're looking for a decrease in occupancy taxes, period.

Mr Pouliot: You heard Mr Simons, the previous speaker, speaking on behalf of all the clerk-treasurers and administrators of Ontario.

Mr Wilson: Yes.

Mr Pouliot: He said today, as they tabulate the numbers, there might be a little padding. You do that when you don't have all the answers. But he hasn't heard one municipality that says this is revenue-neutral. It's all going to cost money.

In the political world — and I don't wish to impute motive here — if you have small businesses and if you have housing — politicians can count votes; in fact, they excel at it. If they could vote early and more often, it would only serve their trade. Who is going to win in this debate? Is it going to be the commercial or the residential?

Mr Wilson: I don't think we should look at a win-lose situation. I don't believe in that kind of philosophy and never have. But to borrow a phrase you used, to not proceed with this legislation, I would hate to think of the alternative.

Mr Pouliot: Okay, that's fair. Thank you.

The Acting Chair: Thank you, gentlemen. We appreciate your time.

1000

DELTA ENGINEERING

The Acting Chair: Our next presenter has just arrived, and that is Delta Engineering, Mr White. Thank you for joining us.

Mr Jeffrey White: I'm sure you are all more used to sitting in front of these poky little high-tech things; I'm not. I'm used to making myself heard, as a small business man. This morning, if I may stand, I'd appreciate that.

The Acting Chair: We would ask that you stand near the mike so it can pick you up.

Mr White: First of all, let me say thank you for the opportunity. I am a small business man. I'm the CEO of Delta Engineering. We are a systems research and development company here in Ottawa. We've been around for 35 years, or at least I have been. I will make a verbal presentation to you this morning and submit within 48 hours a written summary of my comments. The reason I do that is because if there are any questions, they should be included in what my responses are, accordingly.

As a small business person, let me start by saying there is a pervasive attitude in the public sector, and the private sector somewhat, that companies and businesses are awash with cash. All you have to do is answer the phone for all the charities that call me every week.

Secondly, I believe that governments feel the same way, that we are awash with cash. Upon the announcement of the elimination of the business occupancy tax recently by the government of Ontario, the assistant finance commissioner of the city of Ottawa stood up in public with the maximum of arrogance that could ever be mustered by a civil servant and said, "Well, we'll just have to get it from business some other way."

If you check with the Bank of Montreal, they will tell you that 5% of the companies they handle in bank accounts do not have what they call active lines of credit because they have a surplus of cash; another 5% are not capable of mustering lines of credit; and 90% of us function on debt, basically, lines of credit. Need we exemplify the strength of the banks and their growth over the past few years? That is one of the factors: We borrow money to stay in business. I don't like borrowing money to pay taxes, and I don't like to subject myself to this type of arrogance as expressed by the assistant finance commissioner of the city of Ottawa.

I am speaking in favour of the elimination of the business occupancy tax. The direction of the government, as outlined by the provincial Treasurer in the Legislature, is absolutely correct. The reasons given by the Treasurer for the elimination of this outrageous, indiscriminate, unfair, excessive and unconstitutional tax are absolutely correct, so I won't go into that aspect of what he has said.

It is a small merchant, storefront concept of taxation, charging the most tax to the occupant of property that appears to have, apparently, the most advantageous position. If you read the act and if you read the business occupancy tax aspects of the assessment of various types of business referred to by the Treasurer, you will see that it is from the early 1900s and it's the storefront concept. The second-storey chap pays less and the first-storey chap pays more because they were all basically guild merchants of a type, and the tax reflects that. It is completely out of date today.

Look at the company I run. I run a company that spends about 25% to 30% of its revenue, and that revenue is for research and development. That's extremely high, and that is our business: solving unique environmental problems for clients who have specific problems and building systems that have never been built before. I point to the sewage treatment plant in the town of Westport, Ontario, as a prime example of that. We just recently finished that.

I have personal experience in this matter in a running gun battle with the business occupancy tax, the system, the assessor's office and, God help us, the city of Ottawa finance department. As you are aware, another tenant could occupy my premises, do 10 times the business, employ twice as many people and pay half the tax that I am paying. A business colleague who has a business not 500 metres away from me owns three acres of land, has 12,000 square feet. He is a fabricator and a manufacturer and should pay 60% of the assessed value; I'm assessed at 50%. His annual BOT is $3,300 a year and mine is nearly $8,000, and damn it, am I annoyed at that. That's not the only one. There are many others that I have checked. I'm quite prepared to actually provide the details except that my colleague probably wouldn't appreciate it. He obviously has a better deal than I have. But that is the inequity addressed by the Treasurer. I occupy less than 5,000 square feet, own no land. I'm assessed as an engineer and I pay $8,000 per year while my business colleague pays $3,300. This is a truthful indication that the government is moving in the right direction to solve this problem.

To those members of this committee who represent former governments, you had an opportunity to fix this, because I've been complaining since the last two governments were in power and I have been bloody well ignored, and I thank you for this opportunity. However, I did know John Robarts, I used to sail with him, but in those days the tax was so minor, we didn't care. In the city of Sarasota, Florida, they have a maximum business tax of $300, referred to from the turn of the century, maximized at $300, as a conspicuous assets tax. Every business pays it, and gladly.

We have concisely and clearly articulated this injustice for years, as I've said. However, this committee and the government must ensure that they do not fall short on this matter with respect to the pillars of these injustices: the assessor's office and the municipal financial officials.

The Treasurer's remarks refer to working out any assessment anomalies or disagreements with the assessment office. Often this is an impossibility. In my case, the assessor's office is 60 metres away from the window of my office. I personally have measured it. My experience is that they are the laziest, most incompetent group I have ever observed. We have a little sign on the inside of our office that's a joke, "Do not step outside this door without looking to your left," because they don't go home at 4 o'clock, they evacuate between five to 4 and 4 o'clock. I wish they could see my people go home at 7 and 8 and 9 o'clock at night and so on, which is the indication of a modern small business.

Together with a bureaucratic arrogance that now permeates the Ontario civil — what happened to the civil service in this province?

Mr Richard Patten (Ottawa Centre): It's disappearing.

Mr White: That's maybe part of the problem, but there's a different attitude than there used to be. I think we have to restore that and that means meeting them halfway, possibly. That sounds funny maybe, coming from a business person, but that would be my advice.

Together with a bureaucratic arrogance that now permeates the Ontario civil service that they are all-powerful and untouchable and a completely uncooperative group, the assessor's office, that has little or no intention of tolerating public interaction or confrontation — it took the assessor's office, 60 metres away from my office, three years, when we moved in in 1987, to get the square footage right so the assessment basis could be looked at.

Secondly, as we are a research and development company, we clearly qualified for "other" under the act and the lowest level of taxation, which would have taken us down to the 25% or 30% level. The assessor's office refused, after several applications to them directly, to come to our office and see that we were not a manufacturer. They heard or they read in one of our brochures that we did software. Software represents less than 1.5% of the total revenue of our business. In fact, anybody in the high-tech field today has software of some type involved, because if you don't, you're not in a high-tech business, and we're in the high-tech environmental business. Because of that, we estimated 1.5% of our revenue is software, which is a small part of what we actually do, which is primarily unique environmental circumstances, they classed us at the time with Cognos and Corel and classed us a manufacturer. If anybody would like to see, I have a letter here from the assessor, and that arrogant SOB — and I referred to the status —

Mr Pouliot: Mr White.

Mr White: You'll have to excuse me, sir, but this is a matter of passion with me now because I should be in my office actually making money instead of talking to you, because you are on the right track. But the simple fact of the matter is that the man classed us as a manufacturer.

It was then that we perceived that there was an attitude in the assessor's office, and this is what I am saying. It's not just the legislation, but it's to go further than the legislation to make sure that this attitude is eliminated. The simple fact of the matter is this: Their attitude was to assess you at the highest possible level, throw you into the appeals process, which costs tens of thousands of dollars, and leave you to float on your own and then their backs are covered.

Was that an instruction from their political masters to assess at the highest possible level or is there an instruction from their political masters to clearly be reasonable? When I was assessed as a manufacturer — you have to see my office. It is not a place of manufacture at all. Out of 30 people, I only have two who work on software, and they're part-time.

1010

To that, the local financial officials of the city were most unhelpful and unsympathetic, pointing to the assessor's office as the cause of my problems. Then they played this game of wait and penalize, while we had a lawsuit going for the last nine years. Wait and penalize. I should have paid less than $20,000 over the last nine years for the space I occupy, in fairness, in balance to my colleague. Instead, I am now in the middle of paying $100,000.

Ladies and gentlemen, do you know what I can do with $100,000? I can create seven jobs. On a one-time

start basis, that cash would create seven more jobs. Instead, I'm paying it to the tax people of the city of Ottawa, who point to the assessor's office, which over the past several years has clearly acted in bad faith. I appeal to you: Incorporate into the legislation, which is moving in the right direction, the elements that are required — it's going to take some finesse — to ensure that this act and these acts of bad faith are not permeated on business after business after business.

The word "incorporation" is to provide a corporate body or a corporate entity to the intrinsic circumstance of a corporation. It is, according to the law, supposed to have the same rights, yet we pay 14% plus on the assessed value of real estate; we pay only 9.76% on the basis of domestic — your home — and private real estate. I don't think we have been justly treated. The elimination of the act is essential. The finesse must be in the legislation to ensure as well that the local municipalities, after any appeal to future legislation, should move quickly.

My recommendations are as follows, if I can just terminate this thing, because I'm only going to get more excited:

Proceed with the bill. You're on the right track, so I speak in support of it.

Reorganize the assessment office from the top down. Give them some leadership. It's numbing to watch these people, and I have personal experience of watching them every day. I went through the OPSEU strike as well, which was a hell of an experience, having to fight to get on to my own property.

Establish local appeal tribunals in the regions at arm's length from the assessment office and make sure they deal with these things quickly and promptly.

This is a touchy one: Insert bad-faith legislation to remove legal protection from government employees who misuse their power and positions and authority and are proven to have acted in bad faith. If nothing else, that will put an incentive right where it belongs.

Insert legislation to force the other pillar of discrimination, the local municipal finance officials, to act on any disputes within 90 days of the decision of any appeal. The city of Ottawa, I now realize, deliberately strung us out for years. When you add all the penalties, in spite of the fact we had a lawsuit going — I would suggest that if a lawsuit is in effect, any appeals and everything be stopped until the damn lawsuit is settled, because that is your basic right as an individual. That, of course, is another problem.

My concern is with the continuing permanence of high-handedness and bad faith that we've experienced. While the BOT may be eliminated, assessments, collection of taxes and expenditure of tax dollars by these same people continues ad nauseam. Commercial real estate values have plummeted. B and C class real estate chokes the market. It is a good time to buy and expand and create more jobs, but municipalities are again balking at readjusting the taxation levels established in more buoyant times. This is not fair. You can't have it both ways. If you're going to take market value, then market value clearly, as the Treasurer has said, is what the damn property sells for. That is essential.

We have to fight again and again and again to obtain fairness. The new legislation, ladies and gentlemen, must reflect these realities. Thank you.

The Chair: Thank you very much for a very spirited presentation. We have about two minutes per caucus. Would you start us off, for the Liberal caucus, Mr Phillips?

Mr Phillips: I appreciate the presentation. My colleagues tell me your business is very successful and you do a great job at it.

Based on your comments, I gather you're quite pleased that the assessment department will be turned over to the municipalities as part of this procedure. Is that something that you think is a substantial improvement, that the city of Ottawa now will handle assessment?

Mr White: Yes, absolutely. I think that generally the trend of legislation — if you run a business with your head down, it's sort of like the way the Russians used to play hockey. We used to love to play hockey against them because, man, did they take a hit when they skated fast with their heads down. The opportunity to deal with this on a local level is absolutely the best route we can go. I commend the government for doing this. This is essential, because it means we can get at them.

Mr Phillips: It sounds like you've got a good relationship with them.

Mr White: Yes, sir. Absolutely.

Mr Phillips: The BOT: You're cheering them on with that and I understand that. I know you won't like to hear this, and I don't want to get you excited, but every municipality has told us — and the dreaded assistant deputy here said the same thing, because that may be reality — the business occupancy tax is going to have to be recovered. That's not something you want to hear, but most municipalities have told us they're going to have to, and they're going to put it on to commercial-industrial.

Mr White: It's already —

Mr Phillips: I know you don't want to hear it. I'm reporting the news. I'm the messenger. That's what they tell us. What it means is that your friend at 60% is going to come down and maybe some of your friends at the lower end may go up, but there'll be a reshifting. I know you don't want to hear that, but that's what's going to happen. Do you think we should be doing anything at all in the bill to try and manage that? Everybody says you've got to get rid of the BOT, we're all with you on that, but just to manage the transition?

Mr White: I did allude to this and I said there is a fundamental inequity between commercial real estate and residential real estate. All right? It's in the best interests of the community that the businesses function. We create the jobs and we are creating the jobs. Yet this pervasive attitude of — why hit the business? It's an attitude from city hall, from the provincial and federal governments, that we're awash with cash. We are not awash with cash.

When you have a new business like ours, in the sense that we have gone into new technologies of recent date — we have borrowed. We've spent all the profit and we have borrowed to go into this. We can't tolerate these additional taxes. So if you take it away with one hand and hit us back with another, that will equalize it somewhat, but it's not acceptable. What I'm saying too is it

should be spread right across the board because everybody in the community benefits, in any sense, and it is more equitable, and quite frankly constitutionally more equitable, if there is any value to the rights of a corporation vis-à-vis the rights of an individual.

Mr Pouliot: Thank you, Mr White. I cannot picture a worse nightmare than being an assessor entering Delta Engineering with you on the property, sir. That must be some fate for the poor person who would venture there. It would demand a lot of courage.

Mr White: Only when they take my parking place, sir.

Mr Pouliot: That's fair. Under the proposed legislation, Mr White, council would have access to a class tax. Simply put, do you fear that what you would gain by the elimination of the BOT, you could end up losing by the ability of council to petition, to make application to establish, to get you under a different tax? So when all is said and done, you would have scored what is referred to — in our party we call it a moral victory, but when you look in your pocket, Mr White, you will perhaps not be richer nor poorer.

Mr White: That's like paying an unfair parking ticket or something like that, I suppose, and saying it's cheaper to pay and walk. I'm not in business for that reason. If I was in business for that reason — hell, I've got to tell you something, sir. The province of Ontario is a hard place to do business because of the bureaucracy and because of the rules and the regulations. There's an army of civil servants out there trying to save us from ourselves and they're not doing a very good job of it.

1020

The province of Quebec very often looks more attractive to us from a business point of view because they're at least on a little bit of a leading edge. But when you look 45 minutes south of here, across the US border, where 80% of our business is carried out, it looks even more attractive. So I'm here for a reason. God, I'm from Vancouver Island and I live in Ottawa. That's the anomaly of the century. But I'm saying to you I love this community, I love this province and I love this country and I'm going to stand and fight one battle at a time, sir.

You're absolutely wrong about the assessor. We eventually got him into our office, because his associate, his assistant, phoned one of my clients in the United States and identified himself to my client and demanded to know what kind of business I did in the United States with this client, because it was in one of our brochures. Think of the arrogance of that, but also think of this: In having done business with that client for 12 years, every year up to that point, I have no longer done any business with that client. Put yourself in that client's position, receiving a call from the tax collector — "What the hell is wrong with Jeff White's business?" That kind of arrogance — and Mr Falkena, his supervisor, came into my office and he justified it and then he looked me and my lawyer and my financial advisers right in the face and said, "I don't make mistakes." Well, he made a big one. I haven't slashed his tires yet, but that's always a final resort. But you understand what I'm saying? He wasn't afraid and he shouldn't be intimidated. I am a reasonable man but I only have a few moments here to express the passion of 10 years of fighting this thing. I am damned annoyed and I'm not going to take it any more. You are on the right track.

Mr Jim Brown: Mr White, what a great presentation.

Mr White: That's my business.

Mr Jim Brown: I had a small manufacturing company and sold it when I got into office. You have said what so many of my colleagues in business have said. You said it so well. I only wish there were more small business people who took the time and effort to come and make presentations as you did, because then maybe the bureaucrats would get the message. They're not getting the message and I agree with you completely. Eighty-five per cent of all new jobs are created by small business and I agree that $10,000 worth of capital in your hands will create one new job.

Mr White: Once, yes.

Mr Jim Brown: It'll take Chrysler $200,000 to create one new job.

Mr White: Bombardier too.

Mr Jim Brown: Yes. You are the job creators. For the government and the municipality to treat you shabbily, as they have, that is self-defeating because we will not be generating jobs.

Mr White: What I'm concerned about is that you're on the right track, but the finesse of the legislation must go beyond the words of the Treasurer in dealing with what I feel is the assessment.

Mr Jim Brown: I have about the same view of bureaucracy as you do, and I'm closer to it, so I have bigger problems than even you do. The minister said: "This spring we plan to introduce legislation to enable municipalities to set lower tax rates on lower-valued commercial properties. Municipalities will be able to choose to tax properties, such as small retail stores and neighbourhood shopping centres, at a lower rate than office buildings and large commercial developments."

What he's saying is basically that small and medium-sized enterprises would get more favourable treatment, as they do under the business occupancy tax. However, part of the problem is that that's going to be left to the municipality to decide.

Mr White: That's good.

Mr Jim Brown: You think that's good?

Mr White: Yes, sir, I do.

Mr Jim Brown: The guy who said to just tax you?

Mr White: It's a step, but I think you'd better finesse the legislation.

Mr Jim Brown: Would it be better if the province set that category?

Mr White: Once and for all? Possibly, but it's got to be with the resolve of upgrading it on a regular basis, as the Treasurer has stated clearly. I don't think there would be any disagreement on any side of the political fence in this that the act does not reflect the reality of what business is all about: the high-tech sector, the predominance of export, to be the success of any business at this particular juncture.

That's why a British Columbian like me is here, although things have changed in British Columbia, because of the Pacific Rim activity now and so on over the years. I came to Ottawa and I came east because this is where the centre, the heart of this country is and

business in the United States as well. That's why I'm here. But I have to say to you that if you put it on a local level, that's a good move. At least we can get at them.

I want to correct one thing you've said. I don't have a wide view of the bureaucracy that way. I have very good relationships with many elements of the bureaucracy, particularly in the environment ministry, who have worked and helped us develop this technology with great enthusiasm over the past 17 years that we've been working on this one technology. But when it seems to come to taxation, it somehow brings out the best in all of us, so we show it. Consequently maybe we are a little more aggressive, maybe we've got to tone it down, but we must perceive fairness and we must have access. I don't want to sit in front of the mayor of Ottawa and get a rationalization of the damned good job he or she has been doing. What I want to do is deal with the facts. We're too damned busy. We're working Saturdays and Sundays and late hours.

Mr Jim Brown: I know it.

The Chair: Mr White, thank you very much for a very spirited presentation. We certainly appreciate you taking the time.

Mr White: Within 48 hours I will submit this to the committee in Toronto. I thank you again for the opportunity.

The Chair: Is the Ottawa Business Improvement Area present? No.

TOWN OF HAWKESBURY

The Chair: Perhaps we could ask the town of Hawkesbury, Mr Bessette, to go out of turn and give his presentation at this time. Thank you very much, sir.

Mr Raymond Bessette: Good morning, ladies and gentlemen. This will be a fairly short presentation. I just want to talk briefly about the impact of Bill 106 on business tax revenue.

As you all know, Bill 106 will result in some changes in the Assessment Act. One of the significant changes will be repealing the current section 7, which currently provides for business assessment to be computed by reference to the assessed value of the land occupied for business purposes. It will be replaced by a new section 7 which prescribes classes of real property, and these new classes are: residential/farm, multiresidential, commercial, industrial, pipeline, farmlands and managed forest. Nowhere in there are there any business taxes.

This definitely has some impact on Hawkesbury and I would think any other town or city. First on the positive side, this means the problems associated with collecting business tax revenues will be a thing of the past. As you all know, due to the difficult economic conditions there is a significant amount of tax arrears — we see this in Hawkesbury and I'm sure this is the same situation just about everywhere — both real property and tax. In the case of real property, these uncollected revenues are considered hard revenues, and that's because the Municipal Act allows us to register a tax certificate against the title of the property once the arrears have reached three years. If within one year of issuance of the certificate the cancellation price, that is the cost of all your taxes and interest, hasn't been paid, then the town may sell the property and recover the taxes.

But we don't have that option on the business side. On the business side we consider them soft revenues. We must manage them fairly closely to ensure that we do in fact collect them. A measure we have to take, for example, is the use of bailiff services to distrain goods and hopefully to collect and recover taxes. In the case of bankruptcies quite often we have to write off those taxes, and this can add up to a significant amount of money. From that point of view, the fact that there are no business taxes, all taxes will be real property and therefore will be hard revenues for us and make it that much easier to collect them.

1030

The less positive side, however, is that we're now facing a loss of business tax revenues in the order of 15% for Hawkesbury. For us it's $772,000. I don't know if 15% is an average rate everywhere, but for us 15% is a very steep price. Given all the pressures we're facing right now, the major cuts in subsides, it's clear that we can't absorb this kind of shortfall. What it is going to mean is that an equivalent amount will have to be generated from real property taxes. The question then becomes, how will the burden be distributed?

Assuming that the range pertaining to industrial and commercial properties prescribed in the regulations allows it, the tax levy for these classes should be increased by an amount equivalent to the business taxes previously levied.

For the business owner who also owns the real property, there is basically no change in the amount of taxes levied. It simply means he's going to get one bill, which will be his commercial taxes, as opposed to his commercial taxes and his business tax. In theory there will be no change in the amount.

In the case of a tenant business it's assumed then that the real property tax increase would be passed on to the business owner by the property owner simply by increasing the rent or lease by an amount equivalent to the taxes that will be increased.

Our point here is that it's extremely important that the rate prescribed for industrial and commercial properties be such that it will permit recovery of business taxes, otherwise our only option will be to increase the rate of all classes of property. In our minds that would mean it would be a subsidy, basically, from the residential property owner to the commercial property owners. Again, for us it's important that the restructuring be such as to allow full recovery of those taxes.

Another related issue is the fact that the rate on commercial and industrial has to be uniform within the county. We think it could be detrimental to a town like Hawkesbury, for example, when the county is mostly rural and we are fairly industrialized by their standards. So we think that perhaps towns should be allowed to set their own rates.

I thank you very much. Are there any questions?

M. Pouliot : M. Bessette, bonjour. Je vous remercie. Je me souviens de quelques visites au fil des ans chez vous à Hawkesbury. C'est un beau pays, n'est-ce pas ?

M. Bessette : Effectivement.

M. Pouliot : Donc la vie est belle à Hawkesbury, malgré tout ?

M. Bessette : La vie est merveilleuse à Hawkesbury.

M. Pouliot : Je vous remercie, M. Bessette. The last paragraph on the first page of your presentation to me indeed tells a tale. It focuses the presentation on the fact that business assessment, and I quote from your presentation, "generates approximately $772,000," simply put, "15% of tax revenues." You operate a fairly small shop, and I see by the ratio, by the proportion of taxes, that 15% takes on extraordinary proportions. It is indeed a large sum. You deal on a daily basis with streamlining, with downsizing. You've done this over the years, I take it?

Mr Bessette: In fact, based on the major subsidy cuts, that's what we've had to do. We've had a very small tax increase in the order of 2% this year and everything else has been absorbed through cuts, and we are very close to the limit with the cuts we can impose.

Mr Pouliot: Would it be fair to say that through recent years every department has come under very close scrutiny? If there was an opportunity to encourage someone to retire, bridging arrangements were made, so you're really lean now, aren't you?

Mr Bessette: Yes, we are lean. We still have an ongoing early retirement incentive program but we are, again, getting very close to the line where we're either going to have to cut services drastically or increase taxes.

Mr Pouliot: So you would be hard-pressed to make up 15% through a normal rate of attrition, through downsizing or through better efficiencies?

Mr Bessette: It would be nearly impossible, sir.

Mr Pouliot: I see your mayor is behind you and he's watching you and listening very intently to what you have to say, and you can make this a short drive back home or a very long drive back home: "Oh, there's only both of us here. Why don't we do this candidly? Where are you going to take the money from? Are you going to find a way to go to another class tax?" What the business people will gain on the one hand they'll have to give back to the office with the other hand, because surely there's an election. Are you running again next November? It's either that or you pass the buck, or the bill, I should say, to the property taxpayers, and since there are more votes — I mean there are more property taxpayers than there are businesses, and since you represent everybody in Hawkesbury, where are you going to take the money from?

Mr Bessette: What we're hoping will happen, as I said in my brief, is that the rate structure will be such that we will be able to recover the business tax from the people who are basically paying it now. If the commercial and industrial rates allow us to do this, that's exactly what we're planning on doing, so there should be very little impact. I guess our point here is to ensure that the rates are such that we will be able to do this.

Mr Pouliot: So using the mill rate when you blend both the residential and the commercial, the bottom line shouldn't change?

Mr Bessette: That's what we're hoping for.

Ms Bassett: Thanks for your presentation. I just want to make sure it's clear that you understand the municipalities are going to have the option to decide whether or not you want to recover the revenue from the lost BOT and you will be able to spread it over the classes you want. But maybe different municipalities will have different focuses. Some will want to make sure business taxes stay low, so they may not put as much on as they want.

Also, the minister is giving the option for municipalities to create a two-tier structure, so you will be able to take and protect smaller businesses with a lower rate, where banks etc will be able to be taxed at a higher rate. Do you think that municipalities will not understand and take that to heart and realize they've got to put in a tax system that works for everybody?

Mr Bessette: Obviously that's exactly what we're hoping to achieve, but our understanding is that the county in many cases will have to make those decisions because the rates must be uniform within the county. In a county like Prescott-Russell, for example, there was a great disparity between towns like Hawkesbury that are fairly industrialized and the rest of the county that with some exceptions is mostly rural. Perhaps the rate set by the counties would not be the rates that we would set here.

Mr Rollins: One of the things you've alluded to is that assessment being distributed around. There is going to be a fund to assist those municipalities that haven't got that commercial base to fall back on to be able to soften that over a period of time. Do you feel that your BOT should be stretched out across everybody, the residential as well as the commercial, or do you feel it should just go on the commercial?

Mr Bessette: We feel it should be commercial. In other words, we should recover it from the people who are currently paying the business taxes, whether through directly property taxes or indirectly by increased leases or rents from property owners.

Mr Rollins: We've heard some presenters, and I think you probably were in the room when the last presenter was here — he felt it should be put over everybody because he is the individual or the commercial person who's creating that new job and that they would be at a better advantage to be able to spend some of those tax dollars in creating more work. Thank you very much for your presentation.

Ms Bassett: Other presenters have made the point that perhaps municipalities will be able to cut their spending to some degree too. In addition, with the lost revenues on BOT of $200 million that we can't collect, there's going to be a pool of money there. Do you feel it's possible for your municipality to cut back its spending?

Mr Bessette: We are very aggressive in cutting back on spending right now, but we have to absorb not only the business tax but also the major loss of subsidies from the province, which for us is a significant loss.

1040

Mr Patten: Mr Bessette, we're talking about redistributing taxes here. In your opinion, who is really going to benefit and who is going to be faced with an increased burden?

Mr Bessette: We're hoping that the restructure will allow us to not change the balance right now of who's paying what. We don't want to see residential taxes increase simply because of business taxes. What we

would like to see is that the people who now pay the business taxes pay the new tax. In other words, at this point we don't wish to redistribute the tax burden.

Mr Patten: There are some businesses hoping they're going to get a tax break. Which are the businesses that are going to get a tax break on this?

Mr Bessette: At this point we don't know. Probably the small businesses that are operated from homes are the people who are going to fall through the net and get a tax break. But our intention is to leave the tax mix as it is.

Mr Patten: Would not businesses that are renting premises be faced with increased costs?

Mr Bessette: Yes, they would be. What we're hoping is going to happen is that the person who owns a real property will pass the tax increase to the tenant in the form of increased lease or rent, and at the end they should be paying no more than they pay now for business taxes.

Mr Phillips: You've raised an issue that's extremely important, and we've not really discussed it at the committee; that is, that the tax ratios are set at the upper tier and you can't deviate from those tax ratios at the lower tier. You're alerting us to a real concern; that is, if you have to live with the county ratios in Hawkesbury, you are going to have to move taxes off business on to residential to recover your revenue. That is how I read the legislation so I think you've got a legitimate concern. I don't have the solution for you, but your concern is extremely important because this is going to happen right across the province where the lower tiers have to live with upper tiers' ratios. I'm just making an observation. That's my observation of the legislation. Is that how you read the legislation?

Mr Bessette: That's the concern we have — not to say that the county will set a rate we can't live, and not to say that the county will not ask for our input on this. But it is a concern.

Mr Phillips: It isn't that they will set the rate; it's that the upper-limit rate will be established on the basis of the total assessment within the county. Under this law, the lower tier cannot go above that upper-tier ratio. The average tax ratio on commercial for the county will be substantially lower than it is for Hawkesbury, but you're going to have to live with the county ratio, not your own ratio.

Mr Bessette: That's our concern.

Mr Phillips: In my opinion, that's highly important, fairly technical, but none the less a huge problem for Hawkesbury if the legislation goes through as it is, I believe.

Mr Bessette: Yes, sir. That would be a big problem for us.

Mr Phillips: Mr Chair, I guess it will be at our meeting on May 1, but I think we should look at that when that comes forward.

There's a second thing I'd ask. I heard something today that I wasn't aware of, that part of this legislation includes a fund for helping cushion the blow. Mr Rollins mentioned it. I'd like to get the details of that fund that's being made available, because I wasn't aware of that.

The Chair: Surely you were aware of the $1-billion fund that was — sorry, I shouldn't —

Mr Phillips: Is that for assessment? I didn't realize that. That would be very helpful to —

The Chair: We could ask for confirmation. I believe that would be from the ministry staff that we could have some confirmation of that.

Mr Pouliot: Mr Chairman, by way of supplementary: Are we talking about a fund vis-à-vis specifically dedicated to 106, or are we talking for the other fund vis-à-vis the downloading?

Mr Phillips: It's 106.

Mr Pouliot: That's what I heard too.

The Chair: We'll get some confirmation on that.

Does that conclude your questions, Mr Phillips? You have about a minute left.

Mr Phillips: I think he's raised an exceptional point. The business occupancy tax: We've heard of where it likely will be recovered from, but you no doubt have conversations with your colleagues and other municipalities and what not. What is the expectation of where the business occupancy tax will be recovered? Is the expectation that it will be almost always from the commercial-industrial sector, or are there some communities saying, "We're going to move it on to residential"?

Mr Bessette: I can only speak for myself. From some discussions I've had with my colleagues, we are hoping not to disturb the tax balance that exists right now. In other words, we would like to recover from the commercial.

The Chair: Thank you very much, Mr Bessette, for coming in and making your presentation today. It's very valuable to have that kind of input.

EASTERN ONTARIO BUSINESS IMPROVEMENT AREAS

The Chair: We now welcome the Ottawa business improvement area. Ms Dannehl, welcome to the standing committee on finance and economic affairs.

Ms Dawn Dannehl: My name is Dawn Dannehl. I'm the executive director from the ByWard Market business improvement area. My colleague Christine Leadman is the executive director of the Westboro BIA. We're actually making a presentation on behalf of the eastern Ontario BIAs.

Ms Christine Leadman: Good morning. As Dawn indicated, we are here representing the eastern Ontario BIAs. BIAs are merchant- or business-driven organizations established by a majority of the businesses in a commercial area. Their purpose is to provide an equitable sharing in the costs of the beautification and promotions of its business core. They also provides a mechanism for organizing and financing programs in cooperation with municipal governments that would not be available to independent businesses by any other means.

At this point, we question, why were BIAs required? Basically, it's the lack of participation or financial will of the municipalities because of financial restraint, but also the lack of concern or initiative from landlords. This was the origin of BIAs. The BIA businesses took it in their own hands to ensure or protect their investment in their business and to ensure that the commercial area stayed viable through beautification and promotions.

Over the years, the BIAs have evolved beyond this role. We've become more of an advocacy group to protect the interests of our membership and the ongoing viability of some of Ontario's most historic retail sites. These efforts are really more far-reaching than they appear. They impact tourism, they strengthen the small business employment base, and they also protect the property values of the surrounding communities, because a viable commercial area is very important to those residential bases.

Though some aspects of Bill 106 appear to strengthen BIAs, the legislation precipitates some grey areas in terms of the board of management eligibility, the membership list and the collection of levies. These are the matters we would like to address today.

Ms Dannehl: In keeping with the spirit of a BIA as being a merchant-driven organization, we would like to ensure that the levy is actually passed down to the tenants via some mechanism in the legislation. This is currently not included in the legislation and it is necessary, because a lack of a clear definition of who actually pays the levy creates an administrative grey area for BIAs. When a new BIA is created, clarification will be achieved by the list the landlord must submit to the municipalities; however, for existing BIAs, this list will not be supplied and the information will be extremely difficult for us to obtain.

It should also be noted that such a mechanism will assist with vacancy rates, as landlords will be encouraged to ensure that their properties are filled, to have tenants to allow them to pass the levy on to somebody.

However, let it be known that the involvement and participation of landlords is beneficial. Many BIAs have independently undertaken initiatives to involve landlords, and they must continue to encourage their involvement.

We therefore suggest that the board of management have representation designated to landlords. For example, 70% of your board of management could be allocated towards the actual business owners' tenants, to ensure that it's still a merchant-driven organization, and the remaining 30% could be allocated towards landlords or municipal electives. The very fact that the landlord has the responsibility to collect and administer the levy we feel gives him or her the right to sit on the board.

Other issues that we feel need to be addressed are that for landlords who have properties with multiple tenants, we are concerned with how it's going to be ensured that the levy is equitably distributed among those tenants if it's not based on some sort of assessment as it currently is. It is also important for us to ensure that the levy is a separate line item on the tax bill, to assure tenants that they are only paying the levy or the equitable portion and nothing else.

1050

Also, one important thing for us in particular: It is assumed that as a result of the elimination of the BOT and subsequent transfer of lost revenue to landlords, municipalities are no longer going to collect or compile tenant lists. Those are what currently serves as the basis for public notification, and what we fear is that it's going to be reduced from all your members to landlords only, though a lot of these issues, whether it be zoning, change in use, whatever, affect the tenants. We'd like to have some mechanism that makes BIAs submit our membership lists to the municipality so we can continue with a proper notification process.

In the event that it is deemed inappropriate to ensure that the levy is passed on by tenants by this committee, at a minimum a mechanism must be in place to ensure that the landlord submits on an annual basis, presumably with taxes, a list of who the tenants are and what taxes are paid — so not just once, when BIAs are established, but on an annual basis.

That being said, should the recommendation not meet approval, it's got to be noted that landlords are going to have very little incentive to support BIAs. Currently, the tenant is directly assessed the BIA levy. It doesn't impact the rent. With the change, the levy will now be a form of tax passed down through the landlord, and although in reality the actual tenant is paying the same amount — they still have to pay the levy, they still have to pay the rent — there will be a perception that the rent has increased. A landlord might say, "I can locate outside this BIA and have a lower rent and attract people to my building." What motivation is there to say, "I can locate within a BIA and have higher taxes"? The perceived rent increase will not be market-driven. It will be the result of a taxation shift.

Ms Leadman: At this point, we would also request some clarification that existing BIAs are grandfathered, from subsections 220(2) and (2.1,) and do not have to be dissolved and re-established under this new legislation. We found this area not addressed in the proposed changes, and we'd just like to ensure that there is some grandfathering for existing BIAs.

That's all. Thank you very much.

The Chair: Thank you very much. That leaves about three minutes per caucus for questions, and we'll start with the government side.

Ms Bassett: Thank you very much for your presentation. I just want to clarify. We all agree that organizations such as the BIAs are very important to communities, and we would hope this legislation will do nothing to impede your success that you've already established. We could follow up and talk about it a bit, but we feel that Bill 106 will not discourage business improvement areas but rather that it will encourage managers and property owners and tenants to have a say in your association because everybody will be paying. Do you not feel this is a positive step? Anybody who's paying a tax is going to want to have some say in how well an organization is run.

Ms Leadman: I agree. As Dawn indicated, we've always tried to encourage landlord participation. This has not been the case, though. We find that landlords are reluctant to participate, generally because they're absent from the area. We've tried to have them participate in programs that have been offered through the municipality, such as façade improvement programs to continue a viable area, and that has almost been nil. Most of the façade improvements that have been done have been done by the retailer on buildings they do not even own.

Ms Bassett: Do you not feel, though, that in the past the tenants were paying the BOT, but now they will be paying?

Ms Leadman: The problem is that the BIA is a merchant association and they feel it is something they have established for the protection of their own business. The lack of landlord participation has been prevalent throughout BIAs for their existence. Merchants do not feel that the landlord works in cooperation with their goals, what they want to achieve through their businesses, but that they usually work at odds.

Yes, it would be great if we could encourage that kind of cooperation for those landlords who do not own a business in the area. Fortunately, in my own BIA the chairman is a landlord; he also owns a business and recognizes that need. But those absentee landlords don't. They're not there and they don't really care. They want to rent the building, and if they don't it's a tax write-off, so for them there really is no incentive.

Our concern is that by putting the onus — the proposed legislation indicates that the person responsible for paying the levy is the landlord. What we are saying is, make the responsible person the merchant, not the landlord. The landlord is the mechanism through which the tax will be collected, but we would like to see the landlord be required to pass the levy down to the merchant. As the merchants feel they will lose their organization, that it will become a landlord organization, it is therefore not in the interests of the landlord to continue with the BIA and they will dissolve it.

Mr Grandmaître: At present, I believe the BIA levy is considered a special tax. With the new system that's before us, Bill 106, has your Ontario association had a chance to go over Bill 106 to find out how it affects existing BIAs?

Ms Leadman: We do not have an Ontario association.

Mr Grandmaître: It's not set up yet, eh?

Ms Leadman: It was, but it did not survive.

Mr Grandmaître: So you really don't know how BIAs from other municipalities, let's say Toronto or Metro, will be affected by Bill 106.

Ms Leadman: We are here representing 10 of the eastern Ontario BIAs, as listed, as many of the BIAs we could get together with on such short notice. Unfortunately, some of the BIAs within the city itself were unable to get their responses back to us in time, so we did not feel we had the right to put their names there, but they were with us at our initial meetings.

Mr Grandmaître: What about the composition of existing BIAs? You say, if I'm not mistaken, that "70% of the board be comprised of merchants and the remaining positions would be allocated to municipal officials and landlords." What is the percentage of landlords being members of these boards of management?

Ms Dannehl: That honestly varies for every BIA. You can't say there's a flat rate.

Mr Grandmaître: What's the average, though? Is it 10%, 15%? You'd like to see more.

Ms Dannehl: Yes. If you're lucky, there's 10% right now, which on a board of 10 members is one. So within Ottawa, when we went to the two-tier level, we have a regional councillor and a municipal councillor on our board, the balance to be made up from the membership. Now, the membership is the merchant. Should the merchant be a landlord as well and should they wish to participate on the board, that's fine, or should a merchant give authority for someone to act in his stead and should it be the landlord, then they can participate as well. But at the present time, it is strictly a membership-based board of management with municipal and regional representation.

1100

Ms Dannehl: And you have to keep in mind when you do have a person who is the property owner and a tenant that they are coming to the table with both hats. I don't know how many people come to the table strictly as a landlord right now.

Mr Grandmaître: And you think that's the reason why landlords are not too interested in joining your association or being part of your membership?

Ms Dannehl: You mean because they're not part of the board currently?

Mr Grandmaître: Yes.

Ms Dannehl: No, because quite frankly we'd welcome them being on the board. I think you have different objectives between your merchants and your landlords.

Mr Grandmaître: Well, why are they reluctant?

Ms Leadman: Basically, as I indicated before, a majority of the businesses are usually held by four or five major landowners, and they have quite a few holdings, so their interest in one particular area is just not there. You're looking at a portfolio — that's the way they view things — and so what happens in one specific area is really not a major concern to them, and what's happening in the day-to-day activities of a business area. For them it's insignificant in the overall portfolio of properties they hold.

For those smaller landlords who do own property in the area, do take the care and are involved with the BIA — as I indicated, my chairman is a landlord and we've been fortunate that many of the members in our area, or some of the members in our area, are landlords and have put the investment in their properties because they are retailers or have their business in the area.

Mr Pouliot: Thank you very much, mesdames. It sounds more like a definition of a mutual fund as opposed to intrinsic value of a particular stock, and I like your grouping.

With the elimination of the BOT, the BIA would be hard-pressed to get funding, right?

Ms Dannehl: No. The funding is a special levy that each merchant pays based on the BOT. So the structure on which the levy is formulated is being eliminated, and therefore it creates a problem in that regard.

Mr Pouliot: So unless you're grandparented, you could find yourself in a position where your future is behind you.

Ms Leadman: Yes. I'm just, as I say, going on the proposed legislation that was mailed to us on which to formulate our opinions. All it does is address the formulation of a new BIA; it does not address the position of existing BIAs. And because you're theoretically restructuring the corporation or changing the whole basis on which the BIAs work, is there protection for the BIAs that currently exist? Do they have to be dissolved in order to be implemented into the new formula, or are they being grandfathered? This is what our concern is.

Mr Pouliot: By way of supplementary — and I must apologize I don't give your presentation the attention that it deserves. I'm trying to locate and situate, and it's the first time I have had the opportunity and the pleasure indeed to be immersed in a group such as yours, so I'm just trying to define the functions in accordance with the bill. And when you speak, with respect, of nuance, you sound like my broker, who was trying to explain to me the intricacies associated with Bre-X mining. So it's not very easy. It's quite difficult.

I sympathize with your presentation. I don't have the answer, but I'm sure the government is listening intently, and if there is a way that accommodation can be made to make sure your mandate is secure, I'm sure it will be done. Thank you.

The Chair: Thank you very much. We appreciate the business improvement association coming in and presenting to us today.

Ms Leadman: Thank you for your time.

The Chair: Our next presenter has not yet arrived, and I don't believe any of the others are in the room at this time. We'll take a 15-minute break and reconvene at 20 after 11. The committee stands in recess.

The committee recessed from 1106 to 1122.

BRIAN MACKEY

The Chair: I call the meeting back to order. Mr Brian Mackey, a councillor from Ottawa-Carleton, is here to join us. Welcome to the standing committee on finance and economic affairs, sir.

Mr Brian Mackey: Thank you for the opportunity for me to appear here today regarding the changes to the property tax system. I'm delighted to be before you, but also to see an old friend, Jean-Marc Lalonde, who I've known for many years and worked with eons ago, I guess.

Mr Jean-Marc Lalonde (Prescott and Russell): I'm not that old.

Mr Mackey: Well, not that many years ago.

By way of introduction, as has been stated, I'm a city councillor from Ottawa, but I'm not here representing the city of Ottawa; neither am I an expert in municipal finance or tax assessment. Nevertheless, as someone in the business with a direct interest in municipal finance, I consider it important to make some points regarding the proposals, albeit in a general way.

My contention is that these proposed changes to the property tax system in Ontario are necessary to move towards a fairer system for both residential and industrial-commercial taxpayers throughout Ontario.

You've heard earlier today from the city of Ottawa's treasurer, Mrs Mona Monkman, that city council is generally supportive of the proposed legislation, as it provides for municipal control over tax policy. This municipal control over tax policy is a critical step for municipalities in exercising local control and accountability, and I stress the accountability aspect. You've also heard from her that we're concerned over the retention of payments in lieu of taxes that are presently collected on the basis of the education mill rates. It is our position that these payments in lieu continue to be a component of the financing of local government for local municipal purposes.

In supporting the changes to the property tax system, I also support the government's position of not allowing municipalities to use the changes as an excuse to raise overall taxes.

I would like to speak in favour of keeping assessed property values up to date, as proposed in the legislation. The annual update recommendation from the Who Does What panel, along with the three-year rolling averages to moderate year-to-year changes, will provide current and consistent property assessment across the province.

Repealing the business occupancy tax established in the early years of the century makes sense to me. How to recover that tax will then become a ratio issue for each municipality and present an opportunity for tax reduction in certain areas. Again, it will put the responsibility in the hands of the local government, where it belongs, in my mind.

Exempting eligible conservation lands from property taxation is, I believe, a progressive step. This incentive may result in less public money being used to buy environmentally sensitive land. As a politician who has seen many property owners treated unfairly by local governments, I support being able to use a carrot in the form of tax incentives to protect land. This may take the stick out of other politicians' hands, who sometimes use zoning to unfairly restrict property owners' legitimate rights.

In the spirit of greater municipal control, the authority to establish a tax deferral system for seniors and persons with disabilities where hardships could apply is also welcomed. I also favour the new dispute settlement process whereby someone in an assessment dispute or classification dispute can apply to the assessment commissioner for a review prior to going to the Assessment Review Board. This will help to simplify appeals.

That's my position. Thank you for the opportunity to bring it to you today.

The Chair: Thank you for coming and making a presentation. We appreciate this kind of expertise. We have about five minutes per caucus.

Mr Grandmaître: I know the city of Ottawa or the regional government have taken an interest in this bill, but how about the cost of setting up the assessment system? You're taking over from the provincial government. Have you looked at the cost involved?

Mr Mackey: I'm sorry that Peter Hume, the regional councillor who was supposed to speak before me, was not here; I would have liked to hear what he had to say and to get that perspective. You heard from Mona Monkman, our treasurer, earlier in the day.

Mr Grandmaître: Yes, and I'm sorry I didn't ask her.

Mr Mackey: That's all right. I wasn't here to hear what she had to say. Council only recently gave the direction for her to come here with the message she had, and as I said, council has said they're generally in support of the proposed legislation. But the answer to your question is, we have not looked, to the best of my knowledge, unless she said something different earlier in the day — I don't think she's had time to do it, so I don't believe that has happened yet.

I would imagine that whenever you're involved in any type of change, naturally, whether it's downloading or any type of situation where some other level of government is being asked to take something on, it would be important to take a look at those costs to see the impact of that and understand what they are. In the long run, they may well be worth the extra control and accountability that the organization gets from the move. I'm sorry I can't give you a figure or be more direct on that.

Mr Grandmaître: That's okay. I realize that whatever the outcome of the year 2000 and the new Ottawa-Carleton map, whatever it is — three municipalities, four, or maybe a single-tier government — it could be a regional responsibility. But I'm concerned that maybe 50% of our municipalities in Ontario won't be able to afford that additional cost, and if there are additional costs, they'll have to look elsewhere for more revenues to pay for that service. That's very, very important.

I realize that AMO has raised that concern, but again they don't have a figure or individual municipalities haven't looked at this. So I'm all for changes, but I don't think too many of our municipalities can afford to take on this downloading.

Mr Mackey: The only comment I could make to that — obviously I can't speak on behalf of AMO, and I'm not speaking on behalf of the council for the city of Ottawa. But municipalities, in my mind, from what I've seen, differ in their ability to take on additional costs. I just heard in the car on the way over here that Ottawa-Carleton has now surpassed the million mark, the number of residents in the area, making it clearly the fourth-largest area within the entire country. We are, for all of our other faults, a relatively well-to-do area. I think we differ a bit from rural areas, for instance.

1130

Mr Patten: Good morning, Mr Mackey. A quick question, and that's simply the interplay between the different municipalities in our area. For example, what is this going to mean? Is this going to mean more competition? Is this going to mean differentials, some places more attractive than others in terms of locating across one municipal line to another?

Mr Mackey: It's a bit difficult, Mr Patten, for me to answer that question in any substantive way. In my talks with our treasurer, we obviously raised some of these types of issues as to where they are.

I guess I would contend that the situation, as it is now — in other areas, there are all kinds of forms of competition, at any rate. I think the real question is where should Ottawa-Carleton go rather than whether this will form another type of change in ratios and rates and mill rates and other sorts of things that alter the competition. It really begs the other question: What's the future for this area? I'm reminded all the time by many people who travel around the world that once you get outside of this area, you don't really say you're from Gloucester or Nepean or Kanata or Cumberland; you say you're from Ottawa. So in my mind I tend to look at it from that point of view and would suggest that I would prefer to see us working together and not having that kind of competition which tends to divide.

Mr Grandmaître: Don't let Ben Franklin hear you say this.

Mr Mackey: Mr Franklin has already heard me say that.

Mr Pouliot: Good morning, Mr Mackey. My name is Gilles and I'm from Manitouwadge — not Manitoulin, Manitouwadge — in northwestern Ontario.

Mr Grandmaître, my colleague, has mentioned — it will become contentious — the real issue of assessment is that in some cases it's so dated, it's exactly that; it's reassessment if you're more current.

Treasury: The province has allocated fully $62 million to bring the assessment current, to update. One out of one million at the regional level, out of $11 million, would result, if you were to partake in this exercise at present, in $5.8 million to $5.9 million. That's what you would have to fork over to pay the assessor. It's also anticipated that an additional 600,000 appeals will join the ranks of those who have already filed — it's in excess of 330,000, grosso modo — bringing the total of appeals to about 900,000. So it's a challenge indeed; it's a problem big time.

Everyone is for change. When it comes to assessment: Not in my backyard unless I can benefit. That almost borders on normal reaction. When all is said and done here, under the premise that it will be more fair, the bigger you are, usually, the more you stand to benefit. That's the formula on which the BOT is based. So when all is said and done at the end of the day, the banks, if they occupy large areas, the large hotels, the large or maybe not so large apartment buildings, the large industrial sector — I'll give you a real example: In Oakville, which is among the most prominent cities in all of Canada, because of the BOT and because of the very structure of Oakville, car plants will see $18 million shift because it is said that those car plants have been over-assessed; they've paid a disproportionate share of the tax burden. So aside from the philosophy, all the niceties and the fairness associated with it, at the end of the day, the large ones will benefit and it comes then at the expense of both the commercial and the residential.

So when we have a parade of presenters, all well-intentioned small business people through their associations, expecting a decrease of the three sectors, they are the ones, Mr Mackey, who stand to lose the most. They don't have the tradeoff of the residential levy. They don't have the voting power nor the lobby of the residents. They don't have the built-in benefits of the industrial. They are the ones we should focus on as a committee, in my humble opinion.

What is your impression when you shake the can and it all comes out? You don't know now. You, as a councillor, will be asked to go on the interim tax levy based on this year. Your fiscal year will start January 1, the province's fiscal year will start on April 1, 1998, and the rules, the new game, not only reassessment — this is a bagatelle. It pales in comparison to all the new services which you don't have any cost on. You don't know what the cost is.

I'll ask you one question, for instance. If someone is on general assistance and has muscular dystrophy, you will pick up 50% of the cost of prescribed drugs. Are you

aware, have you been exposed to the formulary of the Ontario drug program? Do you know about the Trillium drug program? Those are all questions. That's only a small example. You'll be asked to go to the interim tax levy and then, when you final levy comes in, it will be appalling and shocking to cost all those programs. I want to wish you well. My job is a lot better than the one that awaits you. I'd like your comments, briefly.

Mr Mackey: It's a shame that I'm not more knowledgeable of the subject because you've spent so much time discussing different aspects of it that it's very difficult for me. I'm tempted just to say, "Je ne sais pas."

In fairness, on the whole thing, all I can really say to you today is that, as an individual, as a resident of this community, as a resident of the province, as a city councillor looking at and trying to come up to speed in a number of these things and many of these other changes that are under way, my sense is that this is in the right direction. Change is always difficult and I think that obviously a committee looking at things is going through that process of trying to establish how to make those types of changes. I think it's important to continue to move forward and to make the right kind of changes.

I do believe in the aspect of fairness and people argue philosophically over how that gets to be applied. You're right, there can be potential winners and losers. Again, that's a bit of the role of the committee in listening to people and taking those things into account and hopefully exercising good judgement on the whole thing. But I'm afraid that your question went into so many different areas that I'm not an expert in and it's very difficult for me to — I wish you as much luck on your side.

Mr Pouliot: I've done 12 years or 10 years of your job; that's okay, they're taking the riding away. But, Mr Mackey, Ms Jones, who is 74 years old, lives in your trailer court and she's the one who will be calling you, and I want to wish you well, because those people will do her in with the transfers.

Mr Spina: Thank you, Mr Mackey, for the presentation. I appreciate your inability to answer M. Pouliot's bagatelle of questions. The opposition talked about the cost of assessment. I ask you this question perhaps more as a councillor who could be faced with a voting decision, so please bear with me in that it's hypothetical.

The mindset is that if the province eventually divests itself of assessors, because now the responsibility will become the role of the municipality, suddenly the city is going to have to hire this group of assessors and create an assessment department and have 10 employees or 80 employees running around doing assessments. But the reality is that part of this bill gives the municipality the option. All we're saying in this bill, if I understand it correctly, is that the municipality is bound to do a regular update on the assessment in order to prevent the ignorant situation that took place in Toronto, where they ignored updating assessments for 40 years or more. What we're saying is the municipality has to get into assessment on a regular basis.

1140

We're also giving the municipality the option of whether it wants to create a bureaucracy of assessors or whether it wants to contract that out. My question to you is if assessment is only required to be done, with the exception of particular cases, every four years, would you be in favour of creating a bureaucracy or would you be comfortable in voting to contract this out on an as-needed basis?

Mr Mackey: We have two things going on in this area almost simultaneously. One is in many of our jurisdictions, municipalities — and we have 11 municipalities in the region, but certainly the city of Ottawa — we have been attempting to find ways and means to contract things out. That side of things has been growing with us at the city even to the point of looking at our recreational centres and those kinds of things. The idea of contracting something out is not something that's foreign to us and it's something that I would imagine we would have no problem with. I certainly don't have a problem with it because there are times when it's applicable and times when it's less applicable.

At the same time in this area we are going through, as I was discussing earlier in a small fashion, changes which may lead to a new configuration of governance in the Ottawa-Carleton area. I tend to be the kind of person who looks at the glass being half full rather than half empty. I think there's opportunity that's there for us to make changes that will be fairer and to the betterment of everyone in the Ottawa-Carleton area through potential changes.

I would, as both a local and a regional taxpayer in this area, want my government to look at different ways and means of delivering the services. I expect that. We're doing that; we're looking at that. I hear that all the time from people. The long and the short of it is I don't personally have any problem with that and I think we're so far down the road of doing it already in different areas that it's just au naturel to us here.

Mr Douglas B. Ford (Etobicoke-Humber): Mr Mackey, we had Barbara Hall before the committee a while ago. She's the mayor of Toronto, as you know. We were asking her about the 1942 assessments in various areas. There are some 180,000 items on the books, laws, bylaws and everything else. As we were talking to her, she said there's a patchwork in this type of thing on assessment. Since 1902, there are other things on the books, and 1942. Now we're talking about the BOT, the business occupancy tax. I'd like to get an opinion from you of the shortfall of the BOT and where we do a pickup on that. A dollar is a dollar is a dollar. That's what I'm just trying to tell you and you know that; I don't have to tell you that.

Mr Pouliot: You want 1997 prices.

Mr Ford: That's right, we want 1997 prices. We seem to have a conflict of interest when we're talking to these various people who are in charge of the assessment areas. We've got horse-and-buggy assessments but we need them up to 1997. That's all I'm saying. I'd like to know your opinion on it.

Mr Mackey: I think, and I spoke to it in a general fashion, they should be up to date. I realize that the rolling averages were an aspect of trying to take into account how that may affect people, and also you've got a fairly long phase-in time that takes us into the next century. I don't have a great problem with that.

In our area, we're fairly up to date on assessment. As a former Torontonian and someone who grew up in Riverdale, in the downtown area, I have — I guess when you go about these kinds of changes, you obviously have some compassion for people who have assessments going back to the 1940s, because that must be quite bizarre. Someone said to me the other day when they were looking at this, looking at the last time the Ottawa assessment was done a few years ago, probably housing values were up, so if they were reassessed now we'd probably be in a much better situation because most of the values are down. Some of it's got to do with timing.

Once again, I take the position of not being necessarily an expert in this, but I do think that as an issue of consistency, and in my mind, of fairness, you should have assessments that are up to date and that should be consistent. I think people need to know that.

Mr Ford: How many years would you say? Every time there's a reassessment, how long do you think it should be between reassessments?

Mr Grandmaître: It's supposed to be five years.

Mr Ford: I'm not trying to put you on the spot. I just want an opinion because we're getting opinions from everybody right across the board here in Ontario.

Mr Grandmaître: The government is saying five years.

Mr Mackey: A gentleman over here raised the issue of what was the cost at one time of different sorts of things that happened, so obviously you want to know these things. I've heard the figure here, the length here of five years. I would like things to be up to date and I suppose that a three-year period may be a reasonable time frame to work in.

Mr Ford: We have many people across the board who say they can't afford the assessments and different things like that. But we've had a discussion on that and wealth comes in many forms. When I say that, it's either in real estate, in pictures or jewellery or whatever it is —

Mr Pouliot: Cars.

Mr Ford: — cars, automobiles, whatever it is. We were saying that the people who weren't assessed for years upon years, their property values have increased from \$2,000, \$3,000 or \$5,000 for a home way back when till they're \$200,000 or \$300,000 today, but they still want to pay those old-fashioned taxes and they don't want to have any commitment on the upper values now of 1997. The BOT, again we didn't get an answer on that, but I would just like an answer on that BOT that I asked about.

Mr Mackey: Yes, I'm sorry, on the BOT, I had mentioned in here at some point — because we don't know that entirely. We have these concerns about grants in lieu and such on that area, but the thinking is that eliminating the BOT may just mean that it affects the commercial side. There's always the residential side of things, but each municipality will have to look at that in different ways. I know that in reading some of the literature the minister has mentioned the possibility of even tax reductions and that may need to come about if in fact it's possible through expenditure reductions. I can't be definitive on that. I'm sorry.

Mr Ford: I understand where you're coming from.

The Chair: Our time has expired. We do appreciate, Mr Mackey, your coming in and making a presentation to us today.

Mr Phillips: We've got you down strongly in favour.

The Chair: Thank you, Mr Phillips, for the scorecard. I believe that completes our morning. We haven't been able to locate Mr Peter Hume. Last call for Mr Peter Hume. The committee will stand in recess until 1:40 this afternoon.

The committee recessed from 1148 to 1340.

REAL ESTATE BOARD OF OTTAWA-CARLETON

OTTAWA REAL ESTATE ASSOCIATION

The Chair: We have the pleasure of welcoming the Real Estate Board of Ottawa-Carleton; Mrs Milne.

Mrs Sylvia Milne: Thank you, Mr Chairman, committee. This submission is presented by the Real Estate Board of Ottawa-Carleton in conjunction with the Ontario Real Estate Association, with respect to Bill 106, the Fair Municipal Finance Act, 1997.

The Real Estate Board of Ottawa-Carleton is a non-profit trade organization that represents a membership of 1,370 real estate brokers and sales representatives across the Ottawa-Carleton region. Because of our locale in the capital city, we communicate frequently with politicians and civil servants on a wide variety of issues affecting realtors and real estate generally.

The Real Estate Board of Ottawa-Carleton's comments on Bill 106 reflect our long-held view that Ontario's property tax system should incorporate the following four principles:

(1) There should be one province-wide system that is applied consistently across Ontario.

(2) The system must be transparent, simple and equitable, so that all property owners can understand how their property taxes are calculated, what they pay for, how they compare to similar properties and how to appeal inequities.

(3) Property tax reform should be revenue-neutral from both a provincial and a municipal perspective.

(4) Education should not be funded by property taxes.

Bill 106, in its current form, appears to satisfy these principles, as well as address a number of other concerns. We therefore support the thrust of the bill.

We share the government's view that Ontario's current assessment system is unfair, inconsistent and difficult to comprehend. It's value-based, but in many parts of the province assessments are far out of date. Some are based on values established as far back as the 1940s. In municipalities with out-of-date assessment bases, recently developed properties tend to pay higher property taxes than older properties with similar market values. As a result, property owners in the same municipality often pay vastly different taxes, depending on the age of the neighbourhood in which they live. This problem has been brewing for more than 25 years. In 1970, in recognition that the system needed reform, the province took over assessment from municipalities. The intention was to update all property assessments to current market values,

as recommended by the Ontario Committee on Taxation in 1967. That didn't happen.

In 1978, municipalities were given a choice of whether to update their assessment base. Since then about 91% of municipalities and taxing school boards have been reassessed at least once; 70 Ontario municipalities and taxing school boards, including nine cities, have not been reassessed since 1970. By basing all tax assessments on current values and ensuring that the assessed value of properties is regularly updated, the government is redressing the serious inequities that years of neglect have created. REBOC supports the government's commitment to value all properties in the same year and to use three-year rolling averages to moderate changes from year to year. This should ensure that over a reasonable time period similarly valued homes will pay similar property taxes. Ottawa-Carleton generally is assessed at 1988 market values, and so the impact would appear to be minimal in most cases.

In view of the uncertainty created by Bill 101 for some property owners, REBOC supports this legislation's phase-in provisions. Municipalities will have up to eight years to complete the transition to Ontario's new assessment and property tax system. This gives property owners ample time to adjust to higher property taxes if that is the result. As well, we support the flexibility municipalities will be given to mitigate the impact of these changes on seniors and disabled citizens.

Realtors support the removal of education funding from property tax rolls. We believe that education is a provincial responsibility and that it should therefore be paid for out of provincial government funds. We believe that property taxes should be used for services directly related to property ownership, such as fire, police, local road maintenance and such. Our support for this provision of the legislation presumes that the provincial government will maintain education funding at its current levels.

The business occupancy tax is the responsibility of a business occupant rather than the owner of a property. While the business occupancy tax is separate from the realty tax, it is part of a total property tax pool that funds local government services. It generates about 11% or $1.6 billion of total property taxes.

Whatever the rationale for the establishment of the business occupancy tax when it was first introduced, it is extremely difficult to justify its existence today. It's confusing, it's inconsistent and it's incomprehensible. In addition, because the tax is payable by the person operating the business rather than the property owner, municipalities experience significant collection problems. Business tax arrears at the end of 1995 were over $200 million — an administrative nightmare. We therefore support the elimination of the business occupancy tax. We also support the option to be given municipalities to decide whether to recover the revenue forgone by the elimination of the business occupancy tax.

Multiresidential rental properties have been the victims of unfair property tax assessment for years. We are pleased to see the government putting in place mechanisms that will allow municipalities to redress this inequity. For example, municipalities will be able to request a separate tax class for new rental apartment buildings with seven or more units, enabling them to tax these new units at a level comparable to single-family homes.

While we support the thrust of this reform initiative, we note that it will not in and of itself increase the supply of new rental accommodation, a badly needed commodity. In order to achieve that goal, additional measures must be taken including reform of the rent control regime in Ontario and additional tax reform at both the provincial and federal levels.

One more cautionary note: We remain concerned that when the new funding arrangements between the province and local governments are finally in place, municipalities may not have any incentive to offer tax reductions to tenants.

The current assessment and property tax system is complex and difficult for homeowners to understand, and navigating the appeal process is equally daunting. Many appeals occur as a word-of-mouth advisory from neighbours. We are therefore encouraged by the simplified process for assessment appeals in Bill 106. Average citizens must be able to understand the property taxes they pay, the services they fund and the remedies available to appeal inequities.

REBOC also believes that Bill 106 should not be utilized by either the Ontario government or municipalities as an opportunity to raise additional revenue. Property owners are already paying their fair share. The system needs reform; we don't think it needs more money.

Discussions as to which level of government will pay for which service are ongoing and a detailed analysis of the cost implications for individual municipalities and the province is of concern to us and to our local and regional representatives.

The provincial government has stated that property tax reform will be revenue-neutral, and our support for Bill 106 is based on adherence to that principle. Realtors across Ottawa-Carleton and Ontario support Bill 106 and the new assessment system it will bring, because it meets the principles of fairness, simplicity and revenue-neutrality.

We appreciate the opportunity to present our views and wish the committee well in its deliberations.

The Chair: Thank you very much. That leaves us about three minutes per caucus for questions.

Mr Pouliot: Thank you very kindly. We're joined by our distinguished colleague Rosario Marchese.

Thank you for your presentation, kindly indeed. "Transparent," "simple," "equitable" are words that everyone, I would imagine, would readily spontaneously support. You support the brief: "It's about time. The present government, the government du jour, has had the courage to do it where others have failed, and amen."

You support it, but you hope that it is revenue-neutral. With respect, let's make no mistake; there is no such thing as revenue-neutral here. This bill does not work in isolation. It is meshed and webbed with the downloading, pure and simple.

Education: You're kind and generous and it should remain the same. It will not. They're just about to activate the mechanism to deal one on one with the

teachers and their pension plan and they shall shoot to kill, no question about that. There's between $800 million and $1 billion there and they're going for the big grab. No question there.

1350

In terms of the phase-in, if only we lived in a world where we could have the flexibility, the latitude, the friendly or not-so-friendly banker, because local governments will have to find the money to pay for services. They'll do the phase-in for them, so those who owe the system will not be able to run faster than the local government. Those who have a tax break coming will want it tomorrow; those who have to pay will want to wait more than eight years.

I wish you well. The bigger you are, the more you benefit. There's no question about it. If you are large industrial, if you are large commercial, you benefit. The money has to come from someplace, and I'm afraid that this hasn't been addressed. And if you're commercial, you're still stuck with the education portion.

Mr Rosario Marchese (Fort York): Mr Chair, is there more time?

The Chair: Yes, one minute.

Mr Marchese: I had many questions for you actually. Is it somehow your sense that municipalities could find more ways to tax some group of people out there who haven't been taxed? You said this should not be an opportunity for municipal governments to tax more. Do you believe there's room somewhere that we haven't found that we could do this?

Mrs Milne: I don't think there is. I think, though, what we are voicing is a concern that the constituents, the property owners, have. As with any change, people are always concerned about the negative impact. I think everybody recognizes that yes, we must pay taxes, but with the historic inequities, people are looking for those people who have been assessed at those lesser values.

Mr Marchese: I understand. You said education should not be funded by —

The Chair: Thank you very much, Mr Marchese. We'll move to the government side.

Ms Bassett: Thank you so much for your presentation and the good things you had to say about the direction we're going. I just want to pick up on what you said about the lack of supply of apartments. Certainly removal of rent control is one way, but as you said, not enough, and I want to point out that we believe that by the changes in the future to the Development Charges Act and the building code, along with changes in the Planning Act and reform in general to Ontario's property tax, this will help and work together to make rental housing. People want to build anyway. Let's hope.

Mrs Milne: That will be very welcome.

Mr Rollins: Thanks for your presentation. I don't think there is any question that most people who have stood at that table where you have through the time of our hearing have all agreed that we do need some reform as far as the fairness. You feel that in the Ottawa area or in this area your assessment was done in what — you said in 1988?

Mrs Milne: In 1988.

Mr Rollins: So there will be virtually little change in the value of property?

Mrs Milne: It seems to be the impression. The people I've spoken to from the different municipalities feel that it won't be a large impact for the most part.

Mr Rollins: The other thing is that there is also a rent control bill that will likely be coming forthwith in the very near future that may address the concerns that you have with not enough of those places being built. Maybe we can start to dig a few more holes and build more.

Mrs Milne: We'll look forward to that.

Mr Spina: Mrs Milne, I apologize. I got tied up trying to check out, so I missed most of your presentation, but I was interested in hearing what your perspective was on small business and the opportunity for small business with regard to this bill.

Mrs Milne: In terms of the business taxes?

Mr Spina: Yes, the real estate portion, or perspective of small businesses, renting or leasing space, the taxes they pay, the impact on your sales in that sort of context.

Mrs Milne: I'm not going to make a lot of comment on that, because I am a residential specialist. Our commercial people do have fairly strong views. I think, though, the business tax has been a problem item on both sides of the fence as far as the businesses are concerned — there is a fairly large chunk — but also from a collection point of view. We run into it only when the business goes up for sale, of course, and become aware that collection has not been a particularly successful issue. Where does the money come from as far as the municipality is concerned? The property owner, of course, is left with monies not being contributed to the system.

Mr Spina: Have you had any feedback from your ICI members?

Mrs Milne: No, we have not, I'm sorry. The ICI representative was out of town and unavailable in the short time that we had to prepare.

Mr Lalonde: Thank you for your presentation. A few points that you brought to our attention really struck me. First of all, you said that people should understand the tax system. I remember when I was the mayor of a town, I used to give sessions to the real estate people, and I really believe at this time all real estate people should get around to the ministry and have them explain what's going to happen with this Bill 106. You said that the bottom line is the revenue should be neutral, but I don't think the people understand the system at the present time. I don't think the people have taken the time to do an in-depth study.

In my district alone, the tax increase for the surplus, what we call the dumping — I hate to call it dumping — that generated during mega-week is going to cost our taxpayers in Prescott and Russell over $1,200 per family. Why is that? There are two main points that we have to look after. The business occupancy tax, how are you going to recover this? I got the answer from the PA last week. He said all you have to do is put back that tax on the landlord. Someone will have to pay for that. The bottom line has to remain the same unless the services are reduced or cut. Secondly, in the rural area, agriculture, 75% — $171 million — has been cut. I just want to

tell you that I think there's no way at the present time, the way this bill has been introduced, that you are going to get away from a tax increase.

The city of Ottawa, I remember the day following the announcement, I met the mayor, Jackie Holzman. She said: "It's a good thing. We have a hard time to collect the business occupancy tax." Do you know how much the loss is going to be? At the present time, we're saying that landlords have a hard time, when they come up to build a building, to have it rented, because if the landlord has to pay that extra tax, he has to increase the rent. But there's one thing that we have to remember. Some of those landlords have a 10-year lease. Can you adjust the rent because of that additional tax that you have to pay?

I'm serious when I say that. I used to have, on a yearly basis, a meeting with all the real estate people to explain what effect a bill or a bylaw would have on real estate. I really believe you people are going to have a lot of business because people won't be able to afford to pay their taxes. That's my point. I think Gerry had a question.

Mr Phillips: Yes, just to follow up. I think you outlined the four principles that the real estate association had. One was to get education off the property tax. How does your association feel about now having nursing homes, ambulances, child care, social assistance for children — clothing, housing, food. I know you wanted to get education off, but does your association have a view on adding those things on to the residential property tax with, according to most estimates by municipal politicians, adding back a lot more on to the property tax than came off? If you didn't like education, do your members like ambulances and nursing homes on the residential property tax?

Mrs Milne: I don't think it's been addressed in any great detail at this point, but I do believe that the association feels that there is an upcoming need for those services that I think many of us are not even aware of. Certainly demographics indicate that those needs are there and somebody's going to have to —

Mr Phillips: So the residential property taxpayer should pick that up as the need grows?

Mrs Milne: I think as the need grows, it's certainly going to have to be addressed, yes.

Mr Phillips: It's just unusual your association would feel that the property tax in that growing area would be where you want it to be. I intuitively thought your association might have taken the opposite view.

Mrs Milne: I don't think it has been addressed fully at this point, and I really would like not to comment on that as representing the association.

The Chair: We thank you, Mrs Milne, for coming in and spending the time to make a presentation to the committee today.

1400

CITY OF GLOUCESTER

The Chair: We now welcome the city of Gloucester. Ms Tippett, welcome to the committee.

Ms Karen Tippett: My name is Karen Tippett. I'm the treasurer of the city of Gloucester. With me is Jo-Anne Poirier. She's the deputy city manager of corporate services for the city.

Thank you for the opportunity to have input into the review of Bill 106 and to present the comments of the city of Gloucester. Just for your information, I'd like to provide a little bit of background information on the city. We have 107,000 residents and we're located to the east and south of the city of Ottawa. Our commercial and business tax base is about 24% of our total assessment. Our total operating budget for 1997 is $50 million, and of this, almost $10 million, or 20%, comes from payments in lieu of taxes; 80% of these payments in lieu of taxes are from federal government properties such as the airport, CSIS and the Uplands base. Our total 1997 tax revenues are about $20 million.

I've left a package with you that is the report and resolution that our council approved. I'm just going to touch on some of the highlights of some of our comments on the legislation and some related issues.

Gloucester is generally in favour of the draft legislation, while acknowledging that the impacts are not yet fully determinable. The revised assessment methodology should be easier for taxpayers to understand. The increased frequency of assessment updates will be appreciated in reducing complaints. We are currently receiving a high level of complaints because our assessment values are based on 1988, which was near the peak of the market values, and they have dropped since. So a number of people do not understand that a drop in their market value may not impact on their taxes. Everyone believes they're being overtaxed.

We believe at the city of Gloucester the tax policy should be determined at the local municipal level, not at the upper tier. Each municipality has a different mix of residential, farm, commercial and multiresidential properties. Ottawa-Carleton is a good example of the mix of municipal types between rural, suburban, and of course, the fully urban city of Ottawa.

Tax policies that will meet the needs of one municipality may not meet the needs of others. "One size fits all" over the entire upper-tier municipality will in the end penalize one or more classes of taxpayers. We expect strong pressure to shift the tax burden away from the commercial and multiresidential sectors to the residential and farm classes. The urban balance of power at the upper-tier level may result in this in fact happening. This would penalize the suburban and rural sectors of the region. The local level is most able to tailor for the needs of its taxpayers and therefore should be responsible for tax policy such as setting the tax ratios.

The elimination of business assessment is supported, as the business occupancy tax, as you just heard, is difficult to defend, administer and collect. Our preliminary position is that the tax revenues eliminated as a result should be transferred, to the extent possible, to the commercial, industrial and pipeline property classes so that there's no shift in the tax burden to the residential and farm classes.

The move of the farm tax rebate program to the municipal level by fixing the farm land tax ratio at 25% will result in a tax shift to other property classes. If this remains in the legislation, the province must live up to its promise that these changes will not result in increased property taxes.

Payments in lieu of taxes are a significant portion of the revenues of municipalities in the Ottawa-Carleton region. The proposed elimination of residential education taxes will impact these revenues. For Gloucester, this represents about $1 million or a potential 5% tax increase. The uncertainty of the commercial portion of the education tax is a larger concern. For Gloucester, the loss of this revenue, which we currently retain, represents an additional $6 million or a potential 30% tax increase. There has been no indication as to how these taxes are to be determined or allocated, that is, the commercial education taxes. We believe that Ottawa-Carleton municipalities should be consulted immediately to ensure that there's no negative impact to our taxpayers. We believe that this is part of the revenue-neutrality promised by the province.

The intentions with respect to residential and commercial education property taxes need to be announced as soon as possible to reduce the current uncertainties with respect to future tax levels, particularly on the commercial sector. With the mega-week announcement, it is hard to comprehend how the taxes on that sector will not skyrocket. This will not be acceptable. The struggle for business to survive is already tough enough.

During mega-week, in the newspaper there was a cartoon of a municipal treasurer being carried out in a straitjacket, screaming. If those of us who are experienced in municipal finance and assessment are feeling that there is an overwhelming amount of change, can you imagine what the average taxpayers will feel like when they get their tax bill in 1998? The province must develop and put into action a communication plan for the changes that are going to happen. The plan must be comprehensive, clear and delivered early enough for the message to be well understood by all. The plan should be tailored to educate both municipal representatives and the public.

My final point is with respect to timing. The first development of tax ratios by municipalities will be a huge and complex task. It appears that adequate information may not be available until into 1998, which will compromise the ability of councils to do a proper job. Although a delay of reassessment is not optimal, as we are already one year late on our promised four-year reassessment cycle, we strongly believe the setting of tax policy has to be done right the first time. Therefore, if the tax impact studies and other required financial information are not available with sufficient lead time, there should be a one-year delay considered in implementation.

Thank you for your time. I'd be pleased to answer any questions.

The Chair: Thank you very much. That leaves us about four minutes per caucus for questions. Would you like to start for the government side, Ms Bassett?

Ms Bassett: Thank you very much for your presentation. Just to sum up in an overview, past governments have failed to take up the challenge of property tax reform, and because they didn't, of course, thousands of businesses and homeowners are paying inequitable amounts. We think that's not fair. Do you think the current system is unfair?

Ms Tippett: As was noted previously, we did have a reassessment, effective 1993, based on 1988 market values, and at that time we felt it was more or less made more equitable in Ottawa-Carleton.

Mr Spina: I wanted to touch on a couple of things in here. They seemed to be contradictory to what you had said, and I wonder if you could just clarify it for me. I'd appreciate it.

Under the section titled "Business Occupancy Tax," the last paragraph, you say that the 1997 tax revenue is $1.3 million, roughly. "If these taxes are recovered in 1998 from the commercial-industrial sector, there should be no change for the average business." Then you say: "If instead the lost revenue is recovered over the whole property assessment base, the...commercial taxes would decrease by 21% and the local...taxes would increase by 7.5%." You made a comment during your presentation that said something about commercial-industrial taxes going up 30%. I was trying to reconcile these two.

Ms Tippett: That comment related to the payments in lieu of taxes that we currently receive from government properties. A component of that is the commercial education tax that the local municipality retains. That is a portion of our revenue base. If we lost that, our taxes would have to go up by something like 30%.

Mr Spina: Currently you don't collect the commercial education tax anyway.

Ms Tippett: We collect the commercial education taxes and remit them to the school boards, but on payments in lieu of taxes, we retain that portion at the local level. It's part of our revenues, not the school board revenues.

Mr Spina: It's my understanding that I don't think that changes.

Ms Tippett: There is nothing that has told us that.

Mr Spina: There's nothing in the bill regarding those. From what we understand in the bill, payments in lieu of taxes remain static. That's to the best of my knowledge. Also, the education portion of the commercial tax will continue to be collected and remitted as you do now. I don't think there's any change being proposed with respect to those particular areas.

You made another comment. In your current value assessment statement 2.1, you indicated that: "The impact of the change in methodology on individual taxpayers...is not possible to estimate...." We understand that. "It appears that current value assessment will be easier for the public to understand due to the direct relationship.... Use of more recent values and more frequent updates should provide a more user-friendly system."

1410

I thank you for that statement, because what that tells me is that this bill is really being created for the taxpayers and not, perhaps to the chagrin of some municipal governments, to specifically try and gouge the treasury of the municipal governments at whatever level. Is that a fair statement?

Ms Tippett: I think we all have the best interests of the taxpayers at heart.

Mr Phillips: I have a lot of confidence in the municipal level people and I don't think you're out to gouge anybody. I dissociate myself from the comment.

We heard two things from the member, and I'm speaking to them or to the staff, because that's the first

time we've heard what he just said, that is, that the payments in lieu will not change. That's good news. We'll just get clarification for you on that. Second, he said that the method of collecting the education portion of business tax will not change. We have never heard that before. We've been trying to get clarification. We've now got those two things, and as a result of your presentation, the parliamentary assistant for small business has clarified those two things for us. We'll get that in writing for you: that the payments in lieu will not change, and essentially what we're told is that the education portion that your businesses currently pay, the same level will be collected and paid, that it won't be a uniform mill rate right across the province or anything like that. Your presentation has been very helpful in that respect.

Did your council pass this resolution, the one that you've provided to us here?

Ms Tippett: Yes, they did, last week.

Mr Phillips: I gather they've made the decision, as virtually every other municipality has, that the business occupancy tax will be put back on to the commercial-industrial pipeline sector?

Ms Tippett: That is their preliminary position. Of course, they have to look at it more closely when we actually get the information in 1998.

Mr Phillips: That's helpful.

You've raised an issue that I don't think is well understood on this bill, and that is the impact of the upper tier on the lower tier on tax ratios and the profound impact that can have, because you've got to use the same tax ratio in the lower tier as the upper tier, on shifting the burden from one class of property to the other. If you happen to be a lower-tier municipality with a very high commercial-to-residential assessment and you're above the upper-tier level, you're going to be forced to lower your levels to the upper-tier level, and that's going to have quite an impact. I realize you don't have the numbers, that you've got to wait for the assessment, but has your municipality done any number-tumbling on what impact that might have on your municipality?

Ms Tippett: Actually, again as the result of the reassessment we did effective for 1993 — it was a region-wide reassessment — in this region at this time, we all have the same assessment factors and the same mill rate differentials. So in Ottawa-Carleton, if we went with the status quo, there would be no impact.

Mr Phillips: You're assuming the reassessment will essentially keep the status quo in assessment?

Ms Tippett: The impact now is the determination of tax ratios, which is under municipal control. If somebody wants to change that by shifting the tax burden to different classes, that has been given to the upper-tier level to determine, not the local level.

Mr Lalonde: In the business occupancy tax, you only have $1,394,000. Are you sure? Just a shopping centre is about that much.

Ms Tippett: That is our local share of the business taxes in Gloucester. We're 15% of the tax bill, so multiply that by six; that's $8 million we collect in business taxes.

Mr Phillips: That helps. My colleague knows this stuff better than I do.

Mr Pouliot: You're truly the front-liner. You understand the mentality and you understand the capacity of industrial, commercial and residential abilities to meet the current expenses in Gloucester. There's a lot of expectation there.

I live in a very small mining community, about 900 and some-odd miles from here. We extend to Hudson Bay. Two weeks ago I heard the Premier say on the radio — I have a lot of respect for the Premier and the office of Premier — that people in our village should expect a 10% decrease in their property taxes by the year 2000. This is presently, as you know, a makeup of general purpose and a portion for education.

As your new responsibilities are to take place on January 1, you will have some money in your hand based on your interim tax levy of 1997, but the rules will be severely altered and the clock will tick as of January 1. But your final levy, the big one, will not hit until later on in the spring, and then you will have the adjustments of assessment by 1998. I see you shaking your head. Does that mean, as per your tax, that you wish to have a delay? You're going to be in a bit of a mess. Do you feel, from what you know now, that taxes will remain the same, go down or up, and by what percentage?

Ms Tippett: I can't answer that question. I don't have enough information to make any kind of estimate of where taxes will go. I know our council is committed to not taxing our taxpayers any more than they currently are.

Mr Marchese: Recommendation 6 speaks to the fact that implementation of the changes should be delayed until you've seen the impact studies. You may be aware that both opposition parties have asked for those impact studies, which we believe they have in their hands; they're not releasing them. Clearly you're worried about it; otherwise, you wouldn't make such a recommendation. Do you have a sense of what some of your worries might be in relation to this?

Ms Tippett: My worry is that we won't have enough time to do a proper job of doing the calculations. If we had them in September, that might be adequate, but January might be too late.

Mr Marchese: In relation to the business occupancy tax, the government member talked about your last paragraph: "If instead the lost revenue is recovered over the whole property assessment base, the local commercial taxes would decrease...and the local residential taxes would increase by 7.5%." Could you envision a residential property tax increase of that kind? Could your municipality see that?

Mr Pouliot: Can you count votes?

Mr Marchese: That would be suicidal, it would seem to me.

Ms Tippett: Again I can't commit to what council would decide. However, I know their general tendency is not to have a tax increase.

The Chair: Thank you very much. We appreciate the city of Gloucester coming in and making the presentation.

Mr Marchese: Just out of curiosity, how much time did we have?

The Chair: You had four minutes, the same as all the other caucuses had. You're new, Mr Marchese, so I'll let you get away with that one.

Thank you very much for your presentation. We appreciated it.

Mr Pouliot: It seems to go a lot faster for the third party.

The Chair: I might point out that this watch was given to me by my three children.

Mr Marchese: Oh, it must be accurate, then.

The Chair: It's extremely accurate. I wouldn't want anyone to question it. They wouldn't win the argument.

Mr Pouliot: It always goes the same amount of time; it only seems faster.

The Chair: When you're having fun, you do enjoy yourself. I realize that.

1420

PHIL SWEETNAM
DENNIS DATE

The Chair: We now welcome Mr Sweetnam and Mr Date. Welcome to the committee. We have 20 minutes together, and we look forward to your presentation. Will it be a joint presentation?

Mr Phil Sweetnam: Each of us will make about a five-minute presentation. My name is Phil Sweetnam. With me is Dennis Date, the former treasurer of the city of Kanata. Mr Date will go first.

Mr Dennis Date: Generally speaking, the thrust and content of the proposed legislation is to be commended. The province-wide application of the principles espoused in this bill will lead to better accountability at the municipal level, and it will create the potential for better understanding by the taxpayer.

I'm going to speak quickly, because I know you can't read fast. I want to stress four areas of concern or, shall we say, reminder notes.

Updating of assessment values: Confidence in the new system will depend very much upon the regular updating of assessment. I've been here listening to some of the other presentations, and it concerns me. The bill does provide for a transitional period before the updates are on, hopefully, a yearly basis. The British Columbia Assessment Authority has already moved from an annual update to one every two years, while in England the central government has deferred updating their values. I feel that maintaining current values will lie at the heart of securing ongoing public support for any new system. It might have been simpler for updating if they'd had some banding of residential properties instead of the individual assessments that are being pursued so vociferously.

Differential mill rates: The authority to set differential mill rates for at least six classes could set the stage for some abuse. The current restrictions on the bonusing of industries could become a particular issue of concern. It is good that assessment values will be clean and won't be factored and hiding the mischarging that goes on through the assessment system. On the other hand, any intermunicipal competition — although competition is not bad in itself — for commercial-industrial assessment could result in inequitable treatment for taxpayers in other classes of property.

The bill does provide for tax ratio limitations, but they can complicate the taxation process and could set up antagonism between classes of property taxpayers.

Third, and very important — they're getting more important as I move rapidly through them — is public education. I understand that notices won't go out until 1998. I think this is completely too late for the public to begin to get an understanding of this system. The potential for a tax revolt is very real if taxpayers are left to appraise the impacts of the new system until they receive their final tax bills — probably in late May or June because, as we heard from another treasurer, they may have considerable difficulty in actually sending out those tax bills.

As a minimum, the education thrust — and I note from the regional assessment office that a planned program of education is under way, or will be — should explain how the current value will impact on the mill rates of the different classes. Also, the complaint process which replaces the appeal process should be explained.

Unfortunately, this priority for education for the taxpayer is not being acknowledged at this time because of the more pressing and high-profile restructuring, changed cost-sharing responsibilities and health care issues. Personally, however, I feel that the assessment system, this piece of the legislation, could have the greatest impact of any of the legislation introduced, and it should not be allowed to develop the status of a ticking time bomb between now and May of next year.

Finally, and this is my only real concern where I feel it's a retrograde step, is the assessment function being transferred to the municipal sector. It is highly desirable to separate the function of creating an assessment base and employing it as a taxing authority. Even if the costs of some $120 million are still to be assigned to the municipal sector — and I don't wish to discuss that — they should be collected as a service charge whereby they pay for that service to a commission or an agency or to the province. The present assumption of responsibility for accurate, independent and appropriate assessments has been the policy stand of successive provincial governments since 1971, and I would strongly urge that that function be retained outside of the municipal sector.

In conclusion, there is no rationale for not sharing payments in lieu of taxes with school boards, and the ministry's own documentation shows that the non-sharing situation is an anomaly.

Mr Sweetnam: My name is Phil Sweetnam. My family owns a small business in the township of Goulbourn, and we have approximately 30 employees. I am very supportive of the direction the government is taking in implementing market value assessment across the province.

As vice-chairman of the West Carleton Airport Authority in Carp, I believe the policy on airports in dealing with the federal transfer to non-profit corporations is appropriate.

As a past chair of the Mississippi Valley Conservation Authority, I believe the policy of not taxing conservation lands is an appropriate way of assisting in the preservation of provincially significant wetlands.

For my brief five-minute presentation, I would like to elaborate on two points: First is the assessment appeal process, and second is the range of flexibility offered to local municipalities.

In my 25 years of dealing with the assessor and assessment process, I have generally been able to mediate the disputed assessments. On those few occasions when I've had to have appeals at the local assessment review officer, I have not been impressed with the quality of appointments at that level. There is a perception that there is too close a relationship between the assessor and the chair of the committee.

In one particularly fractious appeal over the issue of whether or not land was being used in an agricultural capacity, an appeal chairman was bemoaning with his clerk the loss of a by-election the previous day. I then knew his politics and I knew what to stay away from on that day.

Over the years, in discussing this with a local lawyer who specializes in these appeals, his comments have been that he wonders where the Tories, the Liberals or the NDP, whatever government of the day, drag these party hacks out from.

Later, when I've done an appeal to the Ontario Municipal Board, the chairman, who came from Toronto, really understood the issue of agricultural land and clearly set out for the assessor what the rules were in determining whether a property was used in an agricultural capacity. We felt there was an informed independent comment at the time.

In conclusion, if we leave the appeal process to the local level, all parties must give due consideration to the appointment process to ensure that only informed people who really understand the taxation system are capable of doing an independent appraisal and understanding.

Taxation: Businesses should pay their fair share of taxes, but no more. The removal of the business tax is a step in the right direction in making municipalities more accountable for the amount of taxes they assess to the business process. I believe it would be fair, if the businesses represent 24% of the assessment in an area, that they would pay 24% of the taxes in that area. The province should provide a limited range of factor that would allow a shifting of taxes to the local business community. In British Columbia, a major industry in a one-industry town appealed its taxes and had the assessment reduced by 50%. The response of the municipality was to double the factor. Ladies and gentlemen, it's your responsibility to make sure that that flexibility is not available to the local municipalities.

I concur with the previous speaker. In talking to our township treasurer, Helen Bissonnette, she said that collecting these local business taxes is a real pain in the — she said in the foot. She's quite a lady.

Even though I know some people on this side of the room may say that corporations pay less tax as a percentage of the total tax revenue, I assure you we're paying our fair share. Businesses find we're paying — for such things as land severances, there are increased fees. Someone asked earlier. The land transfer tax has gone up recently. Fuel taxes are up. I've recently been part of the conservation authority; we've increased by $5,000 what we charge a plan of subdivision for the review process. Those are the new taxes that are coming to us, and in addition — on the health care tax we got a little break, but in other things, the Canada pension plan is going to go from 2.8% to 5%, for instance. In other words, I think we're already trying to pay our fair share in the community, and I trust the standing committee will look at that when you're assessing what's a fair range.

I'd be comfortable if I knew what that range of latitude was, but I trust that when you're looking at the regulations, which is where I understand you're going to have those, you will have some input and limit that range. If the system is perceived as being fair, everyone will be able to buy into the market value assessment process.

1430

The Chair: That leaves us with about three minutes per caucus. We'll start with the Liberals.

Mr Phillips: Thank you both very much. You've raised some good points. On the public education one, let me just tell you, I used to have 300 employees, three businesses, so I'm very sympathetic to the business community.

If I were ever to try and make a business decision on the basis of the information I've got, my bank would have told me to go back to the office and put together some real numbers. We've got no impact studies. I hate to bring bad news to you, but we will never see the regulations. We'll see them some Saturday when they're published in what's called the Gazette, and they will be done. None of those will be referred to us.

You raise a very good point about the tax revolt, but wouldn't you think as business people that before we're asked to put this stuff into law, we should really take a look at what the impact's going to be? Wouldn't that be good business planning before we're asked to approve? Once this is in law, the flexibility's gone. If you were in our shoes, would you be saying, "Maybe we should have an impact study," or should we just let 'er go and then let the tax revolt happen?

Mr Sweetnam: I guess the answer is that it depends on how much of a hurry you're in. I would certainly like to see all those regulations first. With the previous government I had some experience with the rent control process, and so much of that was defined in regulation; we really never saw that until it was actually in regulation. That's perhaps a tough way of doing business.

Mr Date: I agree, but I think there's a partnership role here. Having been in the bureaucracy of the city of London and the city of Kanata, the bureaucracies can and do put forth some of their own evaluations, even without the other side's answers. I'm pleading that they get out there and engage the public. The public will just be lost if they wait until March. I think it's a joint effort, a required commitment. They do have information and they can do some evaluation, even with the gaps. It would then put more pressure on the government to respond, not in a confrontational way of putting information forward. They can, but they're not doing that at the moment.

Mr Phillips: Frankly, it's an embarrassment to have to approve legislation without an idea. I believe it's done deliberately, because if they did put out the impact studies the people who are going to be hurt would be

angry. So be it. In a democracy, where you elect people to serve you, if they're going to do something to you they owe it to you to tell you what it is. But this is a deliberate plan, in my opinion, to hide the facts from the public. I predict this: They'll try and hide it long enough that they then will say, "Don't blame me; blame your local municipality." When the tax bill comes out a year from now — it will probably be May 1998 before people wake up: "Holy God, I thought this was supposed to help me. Look at this." Then they'll attempt to blame the local municipality.

I'm just sharing with you our frustration. As to your recommendation on public education, I think it should start before we pass the bill so the public can have an informed view of the bill. I don't know whether you agree with me.

Mr Marchese: I'm going to ask you three quick questions and then you answer however you want. This way I get the questions out.

You made some good points that I support. One of them is a reference to British Columbia. I should point out — I'm not sure how knowledgeable you are, but you may be — that in British Columbia it took three years to do a proper appraisal of all the properties there, commercial, industrial and residential, and it's a small province. Here, we're going to do this in one year or less with fewer resources. You need over 1,000 property appraisers, if not more; we don't have them. I'm not sure how the province is dealing with that. Do you have a comment on that or are you worried about that?

Second, on public education, which the other members referred to, we're not likely to ever get any public education. Because the government is moving so quickly on so many bills, it has no time to educate anybody, really. It means we're going to have a serious problem in terms of people understanding the full implications of this bill on everybody.

The third one is the assessment function, which you made a reference to, Mr Date. I'm very worried about that. You both commented on it. The further point I would add is that it leads to the possible politicization of the property appraisers at the municipal level, and I'm not sure we want that. I think we want a distance, which is what we have with the province doing it. If you get property appraisers to do it at the municipal level, there's a dangerous potential for politicization, in addition to the point you made about making sure they know how to do proper appraisals — but that's a separate matter.

Any comments on anything I've raised?

Mr Date: I'll answer the last one first. I think that's a relatively easy one. The province can certainly transfer the costs of the function and make the municipalities pay it. I really believe, beyond any party affiliations, that that function should be independent. The staff is in place and has grown for the last 10 years to a degree of independence. I believe that is the answer. You can charge the $120 million. I'm not discussing transfer downloading. I'm agreeing with your third point.

On your first points, I will say I'm very impressed with British Columbia's information pamphlets, of which I've had lots sent to me. They have a 1-800 number and they certainly seem to have put a lot of effort into the pre-educational effort. Again, I would like to hope that that will come on stream as early as the next month or so. I have confidence that the assessment offices are well advanced in preparing something along those lines.

Mr Sweetnam: My comment is that I would be probably more comfortable if the assessment were at a provincial level. On the issue of public education, if they're not stopping to do public education, you hold them accountable in another three years. You'll see what their package is. I'm not sure we can comment on each specific piece of legislation, but in three years they're accountable to the people.

Mr Spina: I'm astounded at both the parties in the opposition talking out of both sides of their mouths. Mr Phillips — I'm sorry he's not here to hear this — was a cabinet minister when they jammed the employer health tax down the throats of all the small businesses in this province.

Mr Pouliot: On a point of order, Mr Chair: In deference to our guests, and on behalf of Mr Phillips, he wouldn't mind me stating that this kind of uncalled-for accusation of members of the opposition when we have distinguished guests who are paying us the compliment of their presentation —

The Chair: I don't believe that's a point of order, Mr Pouliot. Thank you very much.

Mr Spina: They accuse us of not having sufficient hearings. Here is a party that rammed through the social contract and had fewer sitting days in the Legislature than we did in the past 18 months that we've been in power.

I thank you both for your in-depth analysis, your comments and your input. It is greatly appreciated. You've put a lot of thought into this.

The point I wanted to ask, Mr Date, is this: You said that it is highly desirable to separate the function of determining assessment values from that of setting the mill rates, and you got into that bit of discussion with Mr Marchese. You said it didn't matter if the assessment process was elsewhere, preferably on the part of the province, as long as it was separated from the municipal authority. Is that correct?

Mr Date: That's correct.

Mr Spina: If the guidelines for assessment were in place but a private sector assessor could do the work, would that be acceptable?

Mr Date: The municipalities should be able to buy the service in whichever way is most suitable, but I wouldn't comment on whether that is appropriate.

Mr Spina: The province wouldn't necessarily have to supply the service, as long as it was available for the municipality to access?

Mr Date: That is true, but discontinuity at this time is not a feature I would welcome. The function is in place, it's been in place and has grown, and I think it has earned some respect over the last 15 years during which it's been independent. Even the provincial governments have moved it away from municipal affairs to revenue and now I think it's gone to the final ultimate, finance, which shows that it's trying to keep it away from anybody who may even internally to the government bring a municipal affairs touch to it.

Ms Bassett: Mr Sweetnam, I want to pick up in your brief where you talk about the taxation part and the municipal response in BC where the town appealed its taxes and then reduced them by 50%: "The municipal response was to double their tax factor. That range of power should not be available to local municipalities."

I want to point out that this will not be possible under the Ontario system because the provincial ranges will constrain this type of spread. Municipalities won't be able to add to inequities between classes; they can only go closer to them. The province, by regulation in the fall, will be setting those. You hit a very good point, one we are aware of and are working to regulate.

The Chair: Thank you for taking the time to come and make a presentation to the committee. It's always interesting to hear the viewpoints of diverse groups. We appreciate your coming in today.

1440

CONSERVATION ONTARIO

The Chair: We now welcome the Association of Conservation Authorities of Ontario, Ms Stewart, chair, and Mr Anderson, general manager. Welcome to the committee.

Ms Wendy Stewart: Thank you for the opportunity to address this committee. My name is Wendy Stewart. As mentioned, I am chair of Conservation Ontario, formally known as the Association of Conservation Authorities of Ontario. The general manager of the association, Jim Anderson, has accompanied me.

My remarks today will reflect the collective opinion of Ontario's conservation authorities on the provincial legislative proposal to adjust land taxation in the province. In particular, I will outline the impact of these policies on our programs.

I think it's important to set the stage for my remarks first by providing a little background on Ontario's conservation authorities, their land holdings and their present treatment as far as land taxation is concerned.

As you may know, there are 38 authorities in Ontario, stretching from Thunder Bay in the northwest to Windsor in the southwest to here in Ottawa in the southeast. Collectively, they have assembled approximately 315,000 acres of land holdings in this province. Conservation authorities are community-based watershed conservation organizations, controlled by boards of directors appointed by local governments within the watersheds.

Ontario's conservation authorities presently pay taxes on all their land holdings. The vast majority of these lands are assessed within the residential class, so authorities pay educational as well as the general services components of land taxes.

Over the past number of years, we have qualified for and received a variety of provincial subsidies on these lands. At present, we receive grants in the order of 100% for lands judged to be conservation lands, which are described as provincially significant wetlands, areas of natural and scientific interest, and threatened or rare species habitat. In 1997 our managed forest properties will, we believe, receive a grant subsidy of approximately 40%. The province pays a maximum grant of $2 million annually to conservation authorities for both of these categories. In turn, conservation authorities pay approximately $5.8 million in land taxes each year to our member municipalities.

And it's important to remember that our land holdings are still increasing. While there are no longer provincial grants available for the acquisition of land and there are few municipal dollars remaining for this purpose, other funding has been identified. There has been a remarkable increase in the availability of private donations, and with new federal tax policies which now allow for the donation not only of money but also of land as an income tax reduction measure, conservation authorities anticipate that additional lands will be added to our exceptional legacy.

The policies contained in the bill under discussion are of considerable importance to us, because as community-based conservation agencies we believe that healthy, vibrant communities require a reserve of open space and natural areas to maintain and enhance their vitality. Quite simply, a mix of open space and natural areas close to built-up neighbourhoods make these communities nice places to live. We are told that the park at the end of the street or the ravine or valley land nearby are important ingredients to residents' quality of life.

In order to ensure the continued preservation of natural areas as Ontario urbanizes, we must ensure that there is the ability to protect this land in its natural state. We also need to ensure that there is a long-term business framework associated with preserving these lands.

Our member conservation authorities must now examine the long-term financial and business aspects of land ownership prior to making a decision to acquire or receive lands. It is our goal to ensure that lands under our ownership remain in public ownership and continue to be available for communities for future generations.

On the basis of the business-like approach to land ownership, I want to congratulate the government on the policies contained within this bill. I believe these polices are a significant improvement for those organizations and private land owners who have conservation and forest land holdings.

I believe the fairness sought in some of the past studies and commissions for these types of properties is finally becoming a reality. I believe that with these policies, our municipalities will be able to establish a reasonable framework for the ownership of natural areas and that communities can look forward to their conservation authorities adding to their network of natural areas.

While this bill sets forth important policies related to land taxation, we do have some comments about things that, in our opinion, will strengthen and improve this bill.

We continue to be sensitive to the impact of this bill on our municipal partners. This is not surprising, since all conservation authority boards of directors are made up of municipally appointed members, the majority of whom are elected individuals.

For example, I am the chair of the Rideau Valley Conservation Authority, an appointee of the regional municipality of Ottawa-Carleton and an elected official within that municipality. My colleagues and I cannot separate the benefits to my conservation authority from the impact on its member municipalities.

Conservation authorities are watershed organizations, and their core responsibilities relate to water and its management. Our land acquisition focus relates to the acquisition of valley lands, headwater areas, wetlands and Great Lakes shore lands. Our land assembly priorities reflect watershed interests, not municipal administrative boundaries, and our land ownership often is concentrated, in select municipalities, within a watershed.

1450

None the less, policies can have a major impact on our municipal partners. For instance, there is one example where a local conservation authority owns approximately 18% of the lands within a single rural township. We recognize that the province has developed stabilization funding provisions to aid those municipalities unduly impacted by these policies.

This bill establishes the ability of the province to define those lands that are deemed conservation land by regulation. To date, our information from the province indicates that conservation lands are provincially significant wetlands; provincially significant areas of natural and scientific interest; areas designated as Niagara Escarpment natural areas within the Niagara Escarpment plan; habitats of endangered and threatened species; and other conservation lands owned by non-profit, charitable organizations that, through their management, contribute to provincial conservation and natural heritage program objectives and do not fit into one of the above categories.

It is the last category that we wish to draw to the attention of this committee. From our preliminary analysis, we have concluded that a little less than 60% of our properties may be eligible for inclusion under this policy umbrella. However, there remain approximately 120,000 acres of conservation authority land holdings that we are uncertain about because determining their inclusion must await the appropriate regulation and, in particular the determination of "other conservation lands."

The province, through the Planning Act, has declared a provincial interest in such natural heritage features as woodlots, wetlands, sensitive habitats, significant valley lands and ANSIs. The province has also declared a provincial interest in natural hazard features, such as floodplains, unstable soils and slopes and erosion-prone sites. Many of the natural heritage features are closely interrelated with natural hazards. Examples include significant valley lands, floodplains and unstable slopes.

The provincial interest as expressed in the Planning Act has, for the most part, carried forward into this bill. However, we note that valley lands, flood-prone lands and unstable slopes are areas where this provincial interest has not yet been reflected in taxation policies. We believe that this provincial interest should remain consistent, and we would ask that this committee recognize that valley lands, unstable slopes and floodplains be considered within the definition of conservation lands eligible for consideration under this policy.

The final improvement that I would offer to the committee again relates to the implementation of this policy. It is our informal understanding that lands judged to be conservation lands, because they are exempt from taxation, will remain in a residential assessment class. Perhaps this is due to the considerable workload of those who will left to implement this policy. In the short run, this will not impact on the land owner. However, in the long run, if these lands were placed in the appropriate class, based on current use as directed by the legislation, future policy considerations could be given to balancing the municipal services which our lands require with the benefits they provide. Clearly, lands held by us are not lands that will ever become development lands. They are lands held in the public trust, and their assessment classification should reflect this.

In summary, Ontario's conservation authorities believe the land taxation policies contained within this bill are a significant step forward for landowners of conservation and forest properties. We believe this will provide the business framework for lands to remain in these uses, and we laud you for these changes. We still believe, however, that within this new land taxation policy context, relatively minor improvements could be made, and we have offered these for your consideration.

The Chair: That leaves us with about two minutes per caucus. We move to the NDP first.

Mr Pouliot: Madam Stewart, your courage is great. You see the need to commend the government, yet we sense that you're very much aware of the state of siege, that your cousins — the Ministry of Natural Resources has been cut by more than half; the related Ministry of Environment and Energy has been gutted. I, for one, placing myself in your shoes, would ask, am I next in line?

I'm very much aware that you also have survived and done so very well, to the best of your abilities in the face of severe, acute cutbacks, and some of them have been devastating. They went to the very heart of what you are trying to do and were of a deliberate, systematic nature, yet you're still around protecting what we feel is more important, part of our heritage. When that begins to slip, there's not much left.

You've talked about regulations. We won't be there at the regulation level. We don't have access to the regulation process, and we need your help. Would you please indicate to us if you have in your possession any regulations to be tabled or if you have any idea of what those regulations will be? We're going blind. There is no consultation process when it comes to regulations.

Ms Stewart: If I could deal with your first point first, sir, the NDP government in the five years preceding this government cut conservation authorities by 70%.

Mr Pouliot: I know, but they're the government now.

Ms Stewart: There was little left to do when this government took power.

Mr Pouliot: They're the government now.

The Chair: Mr Pouliot, would you let the witness answer the question, please.

Mr Pouliot: Any time. We both have immunity. Keep going, Wendy.

Ms Stewart: We are working, whenever possible, with this government on draft regulations and making our best people, our solicitors, available to ensure that when the regulations are drafted we have whatever input is possible.

Mr Pouliot: Will you send us a copy?

Ms Stewart: I'd be happy to.

Mr Rollins: Thanks, Ms Stewart and Jim, for coming in. It's nice to hear that, yes, we've done some things that haven't 100% suited you, but you people have also done a fantastic job of amalgamation in this area, I take it. Where I come from in the Quinte area, we've amalgamated three or four conservation groups together. How many have you put together?

Ms Stewart: We haven't jeopardized the watershed context of our authorities here. We've instead explored staff-sharing and creating the efficiencies that are possible while still respecting the natural watershed boundaries.

I think it's fair to say that authorities will continue to do whatever is necessary to deliver the very essential programs they are delivering, and we are very grateful to this government for endorsing continued watershed management as a core mandate of the authority.

1500

Mr Rollins: I think that's where the mandate of the authority originally started, back X number of years ago when it started. Maybe it was a little bit off the track, according to some people, but it was cut back to force that amalgamation. Also, we put in that individuals can apply to be assessed under the woodlands act and also under wetlands. Even though we have asked you to amalgamate, keep up the good work in looking after what we can't pass on to our next generation if you people don't have it.

Ms Stewart: That's right. There is one concern. It has come to my attention that under Bill 119, there's a move to remove the conservation authorities' ability to grant development in the floodplain. If this fair finances act goes ahead as is currently proposed and in effect results in the total sterilization of the floodplain without any compensation, the combination of those two may create a very difficult situation, where nobody has the authority to grant any development or any renovations.

In one of our municipalities here in the Rideau, Vanier, which is behind a berm which will be totally sterilized, people will not be able to put additions on their homes, even though there is little risk, in today's society, of flooding.

I think we'd better be very careful that with all this legislation on the floor right now, you examine some of those sorts of issues that are going to become more apparent.

Mr Lalonde: I'd like to welcome Jim back to the Ottawa area; it's nice to see him back.

You have done your homework on this bill. You've studied it and have covered the areas we believe in. There are two areas in this bill that apply to the conservation authorities: the fact that we have cancelled the taxes, because I do believe very much in conservation authorities; the other part is the fair assessment tax, and it depends on how it is going to be handled.

The part we really question — you people have faced major cutbacks going back a year or a year and a half ago, and we would like to see the government compensate the municipalities. As you say, one of the municipalities — I hope it is not one of my municipalities — has 18% of its land under the conservation authority. But we should go even further, to cover the sloping areas, which are not covered at the present time. This is causing a lot of problems along the South Nation River. There is definitely going to be a shortfall to the municipality. Municipalities are faced with 75% reduction in revenues from farm taxes; this time, there are more revenues, from conservation tax, that we are going to lose.

We just hope the government will recognize this. You have done your homework and have brought it to the attention of the people, and it's right there in your brief. Once again, thank you very much for coming down, and congratulations again.

Ms Stewart: Merci, Jean-Marc. It is difficult for conservation authorities to pay their municipal taxes. Currently in the Rideau Valley we have Friends of the Rideau springing up, small volunteer groups who are holding special events to try and raise tax revenues. I don't think that's practical annually. If these lands are held for future generations of Ontarians, they ought to be recognized as exempt from taxation so we are able to continue to hold them in the public trust.

The Chair: We appreciate your presentation to the committee today.

ALLAN HIGDON

The Chair: We now welcome Councillor Higdon from the city of Ottawa. Welcome.

Mr Allan Higdon: I was thinking of you this morning as I was looking out at that beautiful blue sky, spring in the air, thinking of you in your meeting room, hoping the presentations were making up for your deprivation.

The Chair: Were you referring to the two hot-air balloons that were rising?

Mr Higdon: I don't know from where.

I just wanted to make a few brief comments personally. I know you've had the official presentation from the city of Ottawa this morning from our treasurer, Mrs Mona Monkman, so this is by way of some of my personal observations on the legislation. I'd like to thank you for this opportunity to present my comments on a piece of legislation which I believe is timely and overdue.

As you may know, the regional municipality of Ottawa-Carleton updated its assessment throughout the region in 1992 based upon a 1988 assessment. Older business and residential areas suffered quite a shock in the form of a dramatic tax hike. Our downtown business core was particularly hard-hit by market value assessment; it has led to very tough times for the merchants involved, coming as it did right along with the recession, as taxes bumped up and the recession hit them. It was devastating.

I realize, however, that this is what happens when assessments get outdated and reality eventually intervenes. I can just imagine the wailing and gnashing of teeth which we will hear from Toronto when their 1940 tax assessment is finally updated. I imagine it will be deafening.

I strongly support the Who Does What recommendation that a reformed property tax system must be province-wide, value-based and kept up-to-date. This will help to avoid the parochial political pressures that prevent municipal politicians from making necessary choices — not that any of us would duck our responsibilities, of course, but some others tend to do that.

The legislation you are considering requires an update to be done based on a June 30, 1996, assessment, with annual updates after 2004. The three-year rolling average provision to smooth out property valuation fluctuations is an excellent innovation which should be well received by those affected by increased assessment, not that any taxation system is exactly warmly received.

The updated assessment provision will prevent the continuation of the current hodge

podge of property tax assessment systems throughout the province, an unrealistic situation created through deliberately outdated assessment systems.

The repeal of the business occupancy tax has been welcomed by the business community. I would think this is a positive move, and I support it. The tax reduction program for managed forests and conservation lands is also very welcome, as is the complete exemption of conservation lands from property taxation. I think these are excellent environmental initiatives. They've been lauded by the previous speaker, Councillor Stewart, who is very involved with the Rideau Valley Conservation Authority.

My concerns about Bill 106 are focused on a few areas.

First of all, very likely a tax shift will take place among the three existing property classes, and that will be hard to gauge until an impact analysis is complete. Just what will the implications of this be?

Second, an annual assessment may well lead to a greater likelihood of assessment loss through appeals, a potential loss we certainly can't afford.

Third, the issue of tax equity between property classes will be left to municipalities, which have never had to consider this before. We can only hope they get it right.

Fourth, the setting of tax ratios at the upper tier could lead to an unfair shifting of burdens between municipalities and across certain property tax classes throughout the region.

Of critical importance to the city of Ottawa, and I know that Mrs Monkman spoke to you about this this morning, is the payments in lieu of taxes from the federal and provincial governments. This issue is not addressed in Bill 106, and it involves over $80 million for the city annually. I would certainly like the status of the PIL revenue to be clarified. We'd be devastated if something happened to it or a significant portion of it was shifted.

Already our 1998 budget exercise promises to be a nightmare, given the impact of the mega-week announcements and this legislation. It will be difficult to have any clear idea of either the revenue or expense implications for the coming year. We're just going to have to muddle through.

In general, the city of Ottawa is supportive of the proposed legislation, as it provides for municipal control over tax policy. It will be vital that the province maintains open communication with the municipalities and demonstrates flexibility so we can resolve to our mutual benefit some of the problems we face in absorbing and implementing the many changes taking place in the administration of local government, virtually all of them simultaneously. It's going to be a very interesting year next year, and this promises to add to the mix.

Those are just my brief comments and some of the concerns I see from a city that's hard-pressed right now.

The Chair: Thank you very much. That leaves us about three minutes per caucus. We'll start with the government caucus.

1510

Mr Ford: I don't know that much about Ottawa, but my son went to Carleton University. I would just like to know if the tax assessment in Ottawa and vicinity is up to date. As you're very well aware, in the Toronto area there's a lot of conflict because the tax is not up to date. This creates a real vacuum in people's thinking. When I say "vacuum," they've got a tremendous amount of real estate assets but they want to pay that old, old tax. We believe it's unfair for certain individuals in other areas that are right up to date. I'd like your opinion on that.

Mr Higdon: We went through this. It was very acrimonious — not as acrimonious as Toronto, but you tend to do things on a bigger scale there, I realize. But in 1992 we implemented market value assessment based on 1988.

The classic debate was about the little old lady in the old house and now her taxes have quadrupled. But I think the point that won out was, "We have all these expenses and there's this one big total tax bill." What you're saying to our proverbial little old lady is: "You've had pretty well a free ride for 40 or 50 years. Somebody else, a young couple who bought a new home, has been paying the freight on your house. Let's balance up the fairness here. Somebody has been paying the bill. You haven't; somebody else has been doing it."

When you look at what condos have to pay in terms of property taxes, it's enormous. Anything built recently pays these incredibly high taxes, and these older homes get by with half of nothing. Why should the people in Rosedale be getting off scot-free while the younger couple who's trying to get started in certain areas are paying higher taxes? It doesn't make sense. It's not fair.

Mr Ford: We've had the mayor, Barbara Hall, at one of our meetings. She danced around the subject for a while and said it was a patchwork of areas where they have not renewed the assessments or anything else for a number of years, back in 1902 or something; there was another one there. We've been getting a backlash from certain individuals and groups saying this government is being unfair in their approach to these things.

As I mentioned before, a dollar is a dollar is a dollar. Some people have their assets in property, other people have them in airplanes or jewellery or whatever they have it in, and you have to get a fair-share assessment on the items.

Mr Higdon: Just because you've had a benefit for decades doesn't mean to say that you're entitled to it. The point I made previously is that somebody's paying the freight, and if you're not paying your fair share, somebody else is picking it up for you.

Mr Ford: Everybody gets the connotation that senior citizens and everybody are poor.

Mr Phillips: I look forward to the government explaining the reverse mortgages to the seniors.

As to the payment in lieu, I can put your mind at ease there; the government has told us that nothing's going to change there, so I think you can rest comfortably with

that. We've heard that today. It was a concern particularly in this area but in other areas as well.

Mr Higdon: We'll get confirmation in writing, I assume.

Mr Phillips: We've asked for that. We expect to get that, because the government members have told us that the payment in lieu will not change.

I have several questions. Everywhere we go everybody says: "We need change. I admire the government for the courage." All we say is, "We'd like to know a bit more about what this really means." My colleague said that everybody admired the First Brigade's courage too, but they all ended up dead. If somebody had been able to say earlier, "Maybe you shouldn't do that," they may have been courageous and alive.

In any event, we can't get any impact studies out of the government. We're being asked to do something your council would never do; you would never pass a bill with as little information as we got.

You raised several good points: the business occupancy tax but also the upper-tier tax ratios. Our concern in the opposition is that what you want, which is tax policy determined locally, will be determined at the upper tier. As we read the legislation, once those tax ratios are set at the upper tier, you have to use the same ratios as the lower tier. Furthermore, there's a further complication that if your ratio is above the upper tier, you've got to bring your ratio down to the upper tier's ratio. Is that a matter of significant concern to Ottawa or is it a minor concern?

Mr Higdon: It's part of all the rest of the things that are coming down through mega-week. We're talking about amalgamation of municipal governments. I want amalgamation to be planned so we have the impact studies and we know what we're getting into. I don't want amalgamation through default.

If this gives the upper tier a device to destabilize the local municipalities, it's another instrument to achieve one-tier government through default. I want to make sure it's a transparent process and the citizens get to decide the structure of local government; not to have, as our treasurer would say, all our revenue sources cherry-picked by the upper tier until eventually the local municipalities simply become unviable.

Mr Phillips: You mentioned the challenge the reassessment caused for some downtown businesses when they were all put on market value. There will be another dislocation as a result of this bill, which is taking the business occupancy tax away. Everybody agrees that's a tax that has to go, but it will be put back, according to all the municipal leaders we've talked to, on the commercial realty tax, essentially in a fixed rate. Has your council had any opportunity to look at the ones that will go up and the ones that will go down and whether that's going to cause any dislocation for your business sector?

Mr Higdon: We had a presentation by Mrs Monkman, who I understand spoke to you, and we didn't go into that aspect of it. It might be too soon to get into that kind of detailed analysis, or maybe we don't have the resources to look at that. But like the TV ads used to say, "You can pay me now or you can pay me later." Somebody's going to pay the bills. If you want to take that off the business tax, it's going to get stuck on somewhere else. Who will prosper from this change and who will not, I don't know.

Mr Marchese: Councillor Higdon, you make a case for saying that finally people are going to have fairness. Some people have been having a free ride. It's the same argument the government makes in this regard. One of the things we take pride in in downtown Toronto — that's where my riding is — is the fact that we have a livable city, a residential component which some of the major cities don't have. Our reference is usually to the American cities, where the residential component has disappeared, making the city core not a very livable or nice place, by and large. I think most people agree with that.

The feeling we have is that as you achieve this fairness, there are some dangers you've got to worry about. One I worry about is the seniors, and there are lots of seniors in my riding. My mother's one of them. She owns her own home — she's going to be 86 this month — and she wants to stay in her own home. She pays about $2,000 in taxes, and the increase in her taxes is probably going to be very high. You might argue that she's getting a free ride. She thinks she's paying a lot. When she all of a sudden has to face a big tax hike, she's going to have to worry about that. She and many other seniors are going to have to worry about that.

Businesses are worried about the tax burden. Some of them are worried about the tax burden in terms of their ability to stay. Downtown Toronto's been very worried about losing business to the outskirts, to the GTA. Doesn't that worry you a little bit?

Mr Higdon: Sure it's worrisome. The money has to be paid, but at least if you have tax policy in control of the local municipalities, these kinds of values you're talking about can be incorporated locally and reflected locally. I think people would much rather have that than have the policy decided at Queen's Park and it's just a general, generic tax policy for everybody. If your community values those kinds of residents and that integrity of the neighbourhoods, surely your municipal representatives will incorporate that in your local tax policy. That gives you the benefit of local control that reflects local values.

Mr Pouliot: Mr Higdon, you have mentioned in the course of your presentation that you don't see Bill 106 as working in isolation; that it was meshed, webbed, connected with the mega-week and it has to be factored in, incorporated. I could sense some hesitation on your part, and I thought it was on account of not knowing what the cost will be as you are compressed into a rather short timetable.

I, for one, do not possess the means to buy things without knowing the price. I think it's a fair question. Are you satisfied? We're not. I'm not blaming the government here. These things take time to detail and there's a lot of unknown. Before we make any decision regarding the people we represent, at whatever level, surely everything has to be costed. We have to know how many dollars we are talking about, because there are thresholds there. There is a philosophy, a human dimension, an apportionment — there's only so much — and there's also an ability for society to digest and assimilate

only so many changes or we risk a counter-revolution perhaps, using their jargon, or we have mistrust and dislocation in some cases. Do you have some fear that it's getting a little late and we need the figures as soon as possible? I'm talking about the mega-week.

Mr Higdon: Sure. I think everybody's worried about that at the municipal level. We're in uncharted territory here, so who knows the impact of it? The government doesn't know, I'm quite sure. We're all hopeful. What the net benefit to this region will be of the mega-week changes, the regional chair has said the region might be out $100 million, $120 million — who knows? — or it could be a lot less. I don't think we will know, the financial figures won't shake out, for about a year. I'm sure you'd be looking at that.

I've worked in the bureaucracy, and you can bet the bureaucrats don't really know the implications either. They've taken educated guesstimates, but we're going to have to live with the consequences. That's why at the very end I stressed that I hope this still remains a flexible process. When you're going through this number of changes, there are going to be, you can bet, several major screw-ups or underestimates throughout the process, and the government had better be prepared or have the flexibility to adjust to make sure this evens out and the objectives they have set are achieved.

I know the federal government is downloading on to the provincial government, so the suspicion is of course the provincial government downloading on to the regional, which downloads on to the local. Unfortunately for us at the local level, there's nobody else to download on. We're at the bottom of the heap. There's a suspicion that you're incorporating the federal cutbacks as part of mega-week down to the local level.

The Chair: Thank you very much, Councillor Higdon. We appreciate your presentation to us.

That concludes our business in Ottawa today. The committee will stand adjourned until 9 am tomorrow morning in Chatham. See you all there bright and early.

The committee adjourned at 1524.

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CONTENTS

Tuesday 15 April 1997

F-41

F-41

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Legislative Assembly
of Ontario

First Session, 36th Parliament

Assemblée législative
de l'Ontario

Première session, 36e législature

Official Report of Debates (Hansard)

Wednesday 16 April 1997

Journal des débats (Hansard)

Mercredi 16 avril 1997

Standing committee on finance and economic affairs

Comité permanent des finances et des affaires économiques

Fair Municipal
Finance Act, 1997

Loi de 1997 sur le financement
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Chair: Ted Chudleigh
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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday 16 April 1997

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Mercredi 16 avril 1997

The committee met at 0900 in the J. G. Taylor Community Centre, Chatham.

FAIR MUNICIPAL FINANCE ACT, 1997
LOI DE 1997 SUR LE FINANCEMENT ÉQUITABLE DES MUNICIPALITÉS

Consideration of Bill 106, An Act respecting the financing of local government / Projet de loi 106, Loi concernant le financement des administrations locales.

CITY OF LONDON

The Chair (Mr Ted Chudleigh): I'll call the meeting to order. Welcome to Chatham, everyone, and thank you for being on time and prompt. We'll start today with Mr Hopcroft from the city of London. We have 20 minutes to spend together, if you'd like to make a presentation. We will fill any remaining time with questions. Please proceed.

Mr Grant Hopcroft: Thank you very much, Mr Chair. My name is Grant Hopcroft. I'm the deputy mayor of the city of London and I'm presenting a brief this morning on behalf of the city of London. I'd like to begin by recognizing the efforts of the province to consult with municipalities, both through the Who Does What process and through these committee hearings.

We support the confidence and the recognition this bill reflects in terms of the ability of local governments in Ontario to efficiently and effectively manage tax policy. We support the initiatives the province has introduced through this bill to review and update property assessment to a current basis. This is fundamental to establishing a fair property tax process in Ontario.

We acknowledge the effort the province has taken to address this task and encourage the Minister of Finance to dedicate all necessary resources to complete the initial reassessment as well as establishing an effective process for an ongoing future maintenance of the system.

The quality of the reassessment process is most critical to the integrity of the entire tax system and a substantial portion of our revenue base as municipalities. So while we are supportive of this bill, we have identified a few administrative and technical concerns that must be considered. We are pleased to not only discuss our concerns but to provide some suggestions where we believe technical changes or amendments might be required.

First of all, on the issue of reassessment, we are in favour of an assessment system using current property values which is kept up to date. Current and fair assessments are the foundation of a fair tax system. London has been reassessed three times in the last 17 years. I have personally, during my term on council, been through two of them and we have considerable experience in implementing required changes. Each reassessment requires its own dedication of administrative effort, and reassessing the entire province is a significant task. To update assessments to 1996 values, as well as creating a new structure by 1998 using multiple tax rates, will require a dedication of resources by the province. The analyses required to determine and support tax rates will not be available until April 1998. The minister has promised assistance with these analyses, as well as a preliminary roll in the fall of 1997.

The quality of the preliminary roll may well be limited because of the restricted time ministry staff will have to determine the values of each property in the province and, clearly, major changes will occur between the time that preliminary roll is provided and the final roll is returned.

The province must ensure that the current assessment system is maintained while the reassessment program is under way. Municipalities cannot afford any revenue losses resulting from a diversion of provincial resources to reassessment or from loss of assessment appeals. We need assurances that current and ongoing assessment change is reflected in supplementary rolls and in the final return for 1998. We support yearly updates to the assessment roll following the transition period and we support rolling averages as a means of reducing dramatic shifts.

Bill 106 will eliminate the business occupancy tax from the tax base, and we support this elimination. We recognize that significant administrative efficiencies and financial savings relating to tax collection should occur, but we believe that there are certain problems that need to be addressed.

In 1996, our business occupancy tax totalled $42 million for municipal and education purposes in the city. In 1998, we will have no alternative but to recover those taxes from one or more classes of property. If any classes other than commercial-industrial are burdened with the lost revenue, then taxpayers may view the tax change as a tax shift. One therefore assumes commercial and industrial property owners may have an amount equal to the business occupancy tax included on their 1998 property tax bill. I understand from preliminary discussions that is the intention.

If the revenue from the previous business occupancy tax is recovered from commercial and industrial owners, we foresee several issues. First of all is the transition with respect to commercial leases. The second, and the one I'll elaborate on, is non-profit corporations. Under existing legislation, non-profits have no liability for business occupancy tax, and conversion of business occupancy tax

to commercial property tax may have the result of requiring non-profits to pay a new tax component in their commercial property tax bill.

The next issue is the average business tax rates versus specific business tax rates. Of course, when the BOT is transferred, it will be transferred at the existing municipal average business occupancy tax rate. Currently, there are several different classes which bear tax at different rates. Without provisions for smaller businesses, there may be a negative impact as a result of those shifts in the conversion.

Probably one of the most significant concerns we have as a community is with respect to vacant commercial properties. Under the current system of taxation, vacant commercial property is taxed at a mill rate 15% lower than occupied commercial property. In addition, vacant commercial property is not subject to business occupancy tax. Our preliminary calculations suggest a significant increase to property taxes payable for a typical vacant commercial property if the proposed method is approved. This is not an insignificant portion of the assessment base of many communities.

It is our understanding the government has recognized potential problems relating to taxation of vacant commercial property and we ask you to consider the impact of the approach that is under consideration. If vacant commercial property is put in the residential class, there will be a distortion of historical patterns of property-related taxation in the province. Right now in London vacant commercial property is taxed at a market value rate which is 75% greater than the residential class. Vacant industrial property in London is taxed at a rate which is 127% greater than the residential class. Putting vacant commercial and industrial properties in the residential class will create a windfall for those property owners based on historical patterns of taxation. In our opinion, one possible solution to the issue would be to maintain a lower tax rate for unoccupied commercial buildings.

If I could move on with the issue of consistency and uniformity throughout the province, there hasn't been much consistency with respect to base years utilized and the relative valuation of classes in different municipalities. On its surface, the proposed legislation appears to address this significant issue. We have concerns, however, that in practice, depending on the wording of regulations, the Fair Municipal Finance Act may not achieve the desired consistency for property taxation in the province.

On property tax classes, the bill proposes to implement a property-class-based system of tax rates. Tax rates will be determined by municipalities, while property classes will be determined by regulation. The regulations to create these classes, to our knowledge, do not currently exist. We urge the minister to be very clear in defining property classes and to ensure that classes are consistent throughout the province. Without clear definition of classes, municipalities will continue to see instability in their tax base as property owners appeal the decisions of the assessment commissioner on the class assigned to their property. Instability translates into assessment base erosion and revenue loss.

With respect to the farm tax reduction program, London is prepared to assist with the administrative portion of the farm tax rebate program, but the cost of the rebate, estimated in London to be three quarters of a million dollars, should continue to be the responsibility of the province until a true balancing of the restructuring through Who Does What is established. The proposed legislation requires that municipalities pay the cost of this program. Each municipality has a different proportion of their tax base represented by farms. By assuming the cost of the farm tax rebate prior to ensuring a financial restructuring balance, all taxpayers, including farmers, could see a tax increase.

In the interests of time, I'll skip the actual portion dealing with phase-in; I think that is fairly self-explanatory. We appreciate the option of considering deferral of taxes in certain circumstances for the elderly or physically challenged. Provisions for the recovery of taxes deferred and appropriate interest, plus the determination of eligibility, should be recognized in the regulations.

0910

I'd like conclude my remarks with respect to the assessment appeal process. Property owners have expressed concerns for many years that the appeal process is cumbersome. We support initiatives which streamline the appeal process and provide taxpayers with an open and fair assessment appeal process.

The municipality appears not to have any involvement, however, during this initial appeal process. This is inappropriate. The assessment roll, when returned, is the basis upon which we determine our tax rates. As a result, the municipality should be involved in the process whenever an assessment is challenged, to protect the interests of all taxpayers and to ensure fair treatment. The assessment tribunal system needs to be strengthened because of the elimination of the Ontario Municipal Board role.

In closing, we'd like to express a general concern about the direction of municipal taxation which doesn't specifically relate to Bill 106. We are referring to the initial intention of the government to remove education from the residential property tax bill and replace it with program expenditures which by their nature tend to relate to income redistribution. We suggest that taxation methods should be consistent with the objectives of the programs they finance. A program that is income-redistributive to the economically disadvantaged is more closely associated with income rather than property tax. We urge the government to consider changes to make the system fairer.

I'd like to thank the committee for this opportunity to present the views of the city of London and express our thanks as well that while perhaps you're not in London this morning, you certainly are outside of Toronto. We appreciate the opportunity for communities outside the GTA to participate fully in the process.

The Chair: Thank you very much. I think the committee appreciates being outside of Toronto as well.

Mr Hopcroft: I hope you're all caught up on your sleep.

Mr Pat Hoy (Essex-Kent): Good morning, and welcome to Chatham. I had the opportunity to hear from representatives from London on Monday about the water

and sewage bill that the government has and it was very finely put.

You have a number of issues here within your document, but to the non-profit organizations and the elimination of the business occupancy tax, I believe that non-profit organizations are being asked to do more and more in the current climate. Are you fearful of their ability to pay under this new Bill 106?

Mr Hopcroft: Yes, I am. Perhaps adding a bit of personal perspective on this one, as a member of the tax panel with David Crombie, we had really serious concerns and we urged the government to initiate a review of overall taxation policy with respect to non-profits and other exempt properties. We feel this is an issue that goes far beyond the issue of business occupancy tax, but one that goes really to the very heart of the charitable and non-profit sectors' viability in the province.

Mr Gilles Pouliot (Lake Nipigon): Good morning, Mr Hopcroft, and welcome to the committee as a presenter.

The first thing, Chair, I wish to do is to congratulate members of the government, my colleagues opposite, who today, I think to a person, have seen their dedication and their efforts rewarded by virtue of announcements of parliamentary assistants, and some have become chairs of committees. So it's recognition of their good deeds, and I want to commend them.

Mr Hopcroft, you note in your presentation that in 1996 the business occupancy tax will total $42 million. It's a considerable sum vis-à-vis your overall revenues.

I need your help with the following scenario. Your fiscal year will start January 1. Your revenue will derive from 50% of the previous year's assessment. The rules, your new responsibilities, will be substantially impacted starting in January. I don't assume at this time that you have the cost of the new initiatives, who pays for what, who does what.

Mr Hopcroft: We're waiting anxiously, yes.

Mr Pouliot: You will have a reassessment en masse by April 1, 1998. There's a lot of food on this plate here already. There will be a shift. The province will not make up the entire difference. It's not estimated. So you will have your BOT, business occupancy tax, revenues reduced; you will have your commercial responsibilities — no tradeoff — still paying the education levy; and you will have the residential levy asked to pick up the cost of the new initiative.

What are you expecting in terms of your final, your big levy? Do you fear that there will be some distortion, some dislocation, that the final levy in some cases when you factor in everything — because this bill does not work in isolation. It is webbed with other legislation. What are we to expect? Would you not like to have all the figures, the cost factors at hand?

Mr Hopcroft: We certainly appreciate the fact that there are a number of balls in the air with respect to municipal finance for next year, and this legislation is only one of the balls that's there.

First of all, on the issue of shifts, we would clearly anticipate and understand that as far as the tax rates that are provided by the assessment offices for 1998 are concerned, they would reflect initially, subject to further deliberation by municipal council, a shift of the business occupancy tax on industrial-commercial across the industrial-commercial base.

Given that there are different classes bearing business occupancy tax at different rates, there will certainly be shifts between some of those businesses. Some will be winners, some will be losers, but of course that's only one part of the tax pie for next year. Clearly, what happens with the transition committees, with AMO right now, will have a big impact on the burden of services and programs that we will have.

Based on the January announcements, we anticipate a difference between what we're having to raise now and what we would have to raise next year at around a 20% increase on our taxes. Obviously, that's a significant concern to us in the city of London. It's an issue we hope the province addresses through the negotiations, because we quite frankly feel some of the programs that we've been asked to assume responsibility for are not appropriate services to be supported through property tax.

Mr Pouliot: A 20% increase. With respect, some of your citizens, the residents you represent, are expecting a 10% decrease by the year 2000, and this would be achieved through efficiencies, through the government at the municipal level getting leaner. So unless you can impact, you can take advantage of some class or classes of taxes and put the money right back on at the industrial and commercial level, what they have gained on the one hand, you could find yourself in dire financial need. Is that not so? Yet you support the legislation.

Mr Hopcroft: We support the legislation because it gives municipalities better tools to deal with some of those issues. There clearly will be shifts, but really right now there's nothing other than history to support one class of businesses paying business tax at 25% and others paying it at 75%.

Ms Isabel Bassett (St Andrew-St Patrick): Thank you very much for your presentation. There is just one quick question that I want to put to you. It's really a clarification. When you talked about property tax classes on page 6 of your submission, you raised the very good point that it has to be laid out clearly what the province is doing. We have tabled our regulations and the clerk will be happy to give them to you when you leave.

Mr Hopcroft: I would certainly be pleased to get a copy.

Ms Bassett: Then you can work from there. I'll turn it over now to my colleague from this area.

Mr Jack Carroll (Chatham-Kent): Mr Chairman and Mr Hopcroft, welcome to Chatham. It's nice to be able to host these hearings this morning. We appreciate the Chair bringing this travelling road show to Chatham. It's nice to be part of the government.

The $42 million in business occupancy tax, how much of that traditionally is not collectible in London? We hear about a lot of that business occupancy tax not being collected. Have you any idea how much of that is traditionally not collectible in London?

Mr Hopcroft: I'll give you an example. Last year we wrote off between $350,000 and $400,000. Clearly, to the extent that you're writing off taxes, that means everybody else is paying higher taxes because some aren't meeting their obligations, and one of the strengths of the bill is

that we won't have to have some taxpayers subsidize others.

0920

Mr Carroll: Besides writing some off, I presume there's a lot of money wasted in trying to collect.

Mr Hopcroft: There are collection costs, there are the administrative costs of tracking tenancies, and we have something that has always frustrated me as a council member when we're dealing with tax appeals because of change of occupancy. The amount of paperwork and the amount of administrative effort that is devoted to that is substantial, both at the municipal level and at the assessment office level.

Mr Carroll: A quick question on the appeal process: You have some concerns about the simplification of the appeal process to a single tier. Currently, about 94% of all appeals get resolved at the assessment appeal board and only 6% ever go on to the OMB. Do you not believe there is a simplification that's worthwhile here in eliminating access to the OMB?

Mr Hopcroft: Oh, yes. I'm no fan of the OMB, believe me.

Mr Carroll: But you think there should be some upper level to appeal these to.

Mr Hopcroft: What we're saying is we support the simplification. We hope the streamlining will result in faster determinations on the appeals, but we would like to see municipalities involved at an earlier stage to protect the interests of the rest of the tax base vis-à-vis the interests of one taxpayer paying less taxes.

Mr Carroll: Okay, but eliminating the OMB process you think is just fine.

Mr Hopcroft: Yes.

The Chair: Thank you very much. We appreciate the city of London and you, Mr Hopcroft, starting us off this morning.

Mr Hopcroft: Thank you to the members of the committee. I hope you have a good day.

DARCY McKEOUGH

The Chair: We now welcome Mr McKeough. Welcome to the standing committee on finance and economic affairs. It's always a pleasure to see a former member of the Legislature continuing his civic duties.

Mr Darcy McKeough: Thank you, Mr Chairman, and thank you also for coming to Chatham and giving this part of Ontario a chance to make an input into the bill.

I want to make three broad points, not go into the details. The three points are:

First, nobody likes taxes but the property tax is a good tax.

Second, the key to making it a better tax is establishing a uniform assessment base, which, as I read it, Bill 106 does.

Third, the key to making it a fairer tax is doing away with the business occupancy tax.

First then, I said the property tax was a good tax. As a one time provincial tax levier and collector, I regarded the tax as a provincial tax. In my day, it was even more important than it is today.

There are some figures there, but property taxes in 1975 were $2.4 billion; personal income tax was approaching $1.6 billion. Today, the property tax brings in nearly $15 billion and personal income tax last year brought in something over $15 billion. So as a provincial tax, it has temporarily slipped from the number one position, but I understand that with the recent personal income tax reductions, in 1997 it will again surpass personal income tax revenues. A good tax then in terms of size, and perhaps not as fast-growing, but a growth tax none the less.

Good also in terms of collection: In 1995, property tax write-offs in the province amounted to $367 million of the $14.7 billion, 2.5%, and a large proportion of that write-off was of business occupancy taxes. Those write-offs will drop to virtually zero under Bill 106. Against this, one can only contemplate how much more of the personal and corporate income taxes or provincial sales taxes are lost by evasion, bankruptcy, error or simply errors in reporting.

My second point is that the key to making it a better tax is assessment. Bill 106, as I read it, does that, the same base year for the whole province, with values brought up to date and kept up to date. The provincial response to municipal needs via grants can only be fairly and evenly made if the basis of measurement, the assessment system, is uniform across the province, ie, apples to apples.

My third point, a fairer tax, in effect doing away with the business occupancy tax and replacing it with a uniform rate of commercial and industrial tax, was recommended by the Blair commission in 1977.

There can really be no justification for the present business tax assessment rate of 60% on an industry, be that industry large or small; on a credit union or bank of 75%; or a rate of 30% on a racetrack and 25% on a car park. The tax rate should be uniform for each property class. Of course, there is no justification for rental residential properties being assessed at a higher rate than single-family residences.

In summary, I wholeheartedly support Bill 106. My only regret is that the provincial Treasurer 20 years ago didn't have the intestinal fortitude to do what this bill is now doing. I'd be pleased to try and answer any questions.

The Chair: A marvellous admission.

Mr Pouliot: I thank you very kindly, Mr McKeough. The provincial Treasurer of 20 years ago brought forth very high standards and ethics that indeed set the standard for more than two decades ahead, so I'm truly honoured that you have taken time to share your expertise with the committee.

The majority of people are either aware or are becoming aware of the distortions, the discrepancies built into the BOT, the difficulties in collecting, the perception of the same BOT. In the case of London, it doesn't illustrate what's happening elsewhere. It's a mere 1% or 1.5%, but it reaches extraordinary proportions elsewhere. It's a mess. No denial that it is unfair.

However, the question of the day is, as unfair as the BOT is, in a selected time period — this is also happening quite fast. It's also happening in conjunction with new and diverse responsibilities. There is a need to not substitute the revenues generated by the BOT with some

others, because a tax is a tax is a tax, however fair the other tax is, and also to respect the ability of consumers to adapt to changes and to pay for those changes. The government must represent everyone, from the most powerful to the least powerful. That comes under "society" or "societal."

What are your fears in terms of the shift, in terms of the 900,000 appeals this will generate, and how do we tell people at the residential level that they will not be impacted while those who can run the fastest, those who are the strongest, the large industrials, the banks etc, are getting a tax break?

Mr McKeough: There are certainly going to be shifts, but I don't think you're going to have equity until there are shifts.

The other point you make in terms of the shift in responsibilities from the province to the municipalities and vice versa, however they may turn out through the negotiations with the association, I also wholeheartedly support in terms of accountability. But at the end of the day there will still be provincial transfers of some kind or another, in my judgement, perhaps more to some municipalities than to other municipalities, and the basis of how that is done, the measurement system, is absolutely key.

The third point you made is in terms of individual equity. There are all kinds of people who are paying $5,000 personal income tax on, say, a $30,000 income, who are not in nearly as good a position to pay that tax as other people paying the same tax on the same income, and you are never going to get a complete evenness in any tax in terms of the ability to pay. But the measurement system of the personal income tax is the T4s that you accumulate; the measurement system in the real estate tax has to be the assessment system.

0930

Mr E.J. Douglas Rollins (Quinte): Thanks, Mr McKeough, for coming out. I'm sure after a long political life it must be enjoyable to sit and listen and see what's going on sometimes, because I know it wasn't an easy time when you were there, nor is it always easy here.

You mentioned the evasion of tax. I know this doesn't affect the underground economy as much as we think, but still we've got to get those people who are doing business at a business level so we can tax them. Do you feel, in your expertise, that there is still a lot of that going on, that we haven't got them at the right table to say, "Give me my fair share of taxes"?

Mr McKeough: As recently as 10 months ago, I didn't hire a contractor because he wanted to be paid in cash. He said there would be no PST or GST, as simple as that. I happen to be honest about it and wouldn't hire him, but I wonder how many other people have. I suppose PST and GST are the biggest examples of tax evasion, avoidance, but I think it certainly exists in income tax as well, unreported income, and in corporate income tax. The beauty of the real estate tax is there really isn't any evasion.

Mr Joseph Spina (Brampton North): Welcome, Mr McKeough. It's good to see you again. Thank you for taking time on this.

A simple question, I guess, and maybe not such a simple answer: We've had two varied opinions with regard to the number of categories of property assessment, increasing it from four to six, allowing a variable mill rate to give the municipalities the opportunity to try and recoup the business occupancy tax loss of revenue. The two differing opinions are, one, that some municipalities want that flexibility to be able to choose it on their own, and others have said they would prefer that the province clearly define that. I just wondered what your position was, which you felt would be better.

Mr McKeough: I think I come down on the side of the option. I'm not sure, in the final analysis, this is five or 10 years from now, that you might not see some healthy competition between municipalities as to their ability, using this system, to attract industry. I'm not sure that's the worst thing in the world. They may well decide that their residential property taxpayer could pay something more by way of attracting industry to their industry-weak municipality. I'm not advocating that particularly, but I think it's an option that should be left open.

The other example is that you have the city of Toronto, for example, that is complaining about the move to the suburbs of office space. Part of that reason undoubtedly is the high tax. The city of Toronto, or the new entity, is going to have to decide whether it is more important to maintain what are really in some areas of Toronto very low property taxes on residential properties in terms of the value of the property and continue to watch an exodus of office space to the suburbs. Those are going to be tough decisions and I don't think they're going to be made overnight, but I would keep the option open.

Mr Carroll: A quick question on the farm tax rebate. You might say they're eliminating the farm tax rebate and assessing farm property at 25% of residential value. There are some concerns in our rural communities that as that money is recovered in some other way, all farmers will pay the penalty. That farm tax rebate program has its genesis probably back in your days. Do you believe it's a good process to eliminate it and go to just a straight change in assessment?

Mr McKeough: I think it's necessary that farming, real farming, has some sort of benefit. Funnily enough, 20 years ago — and I'm not sure whether this was Blair or this was the department — we recommended, which I thought was a good idea and I still in some ways think is a good idea, that farm land be exempt, genuine farm land that was farmed, and that the residential property, plus or minus the farm buildings, be assessed in the same way as a residential property in the middle of Blenheim or in the middle of Chatham. There were going to be shifts if that happened but it obviously would impact on the hobby farmer who had a very expensive house, as opposed to the farmer who didn't have a very expensive house, and in that way I think an inequity would have been cured or helped.

The question of farm buildings I think complicated that issue because obviously a dairy farmer or a cattle farmer may have a lot of buildings and a corn farmer may have nothing, cribs. The federation of agriculture at that time opposed that suggestion, and nothing came of it, on the basis that the non-payment of taxes on farm land was going to lead to the confiscation or the expropriation of

farm land by the province and they were opposed to it and wanted to go on paying taxes.

Whether this is the right solution, I'm not sure. I haven't seen the numbers to see what would happen. I suspect it may benefit this part of Ontario, where the farm land is worth so very much, as opposed to other parts of Ontario, where the farm land is not worth as much and you may be hurting the house.

Mr Hoy: Good morning. We're into a subject on farm lands. Kent county is 92% agricultural farm land. Some municipalities that I've talked to in my particular riding have revenues exceeding 50% from the farm tax and then it's rebated to the farmer. In Essex-Kent they will be short $8 million, according to the ministry. Talking to clerks and treasurers, they say $10 million, but let's say $8 million. So they need to recoup this.

Mr McKeough: Do they?

Mr Hoy: Well, I think so.

Mr McKeough: All right, that's the premise of your question, that they need to recoup this. I think what we're trying to do is find a fair tax system and I think you have to decide whether the $8 million is being well spent at this moment or whether it should be spent some other way. I'm not disagreeing with you, but I am questioning your quickness to say that $8 million has to be replaced.

Mr Hoy: Those communities have told me that they need to. There are other downloading situations coming along, and as someone said, there are a lot of balls in the air and no one is really too sure where they're all going to land. But the communities and the farm organizations I have talked to believe this money has to be replaced. The Minister of Agriculture has said: "Don't worry; we have a $1-billion reinvestment fund and we'll do something." The "something" is not really known.

Wouldn't this be a better bill if the finance minister, in conjunction with the Minister of Agriculture, put in the bill how this money would be replaced in the farm communities, those that are highly agriculturally based, with not a lot of room to look for other avenues of assessment, and specifically say how they're going to deal with the shortfall of $171 million across Ontario?

Mr McKeough: I am sure that the treasurers of the largely farming municipalities which you represent, and the farmers and the farm organizations, feel this money should be replaced. But I think if you go to the association of corner stores or you go to a mining community or you go to a credit union, they might want to debate this. Is the system fair? Just because that particular group of taxpayers has been getting $8 million, should they get it forever? That's the question you have to answer first. If you answer that question, and the answer is yes, then perhaps there are modifications that have to be made in the bill.

Mr Monte Kwinter (Wilson Heights): In your statement you say that you wish you had the intestinal fortitude to do what the Blair commission reported. In 1978 you did support it. You issued a statement saying that you were supportive of it, notwithstanding that it retained business tax, but it was not implemented because it was found to be unworkable.

Mr McKeough: No, that's not correct.

Mr Kwinter: Well, I can tell you the research that was done, and I have a statement right here that says it was not implemented because it was unworkable. I can tell you that this has happened with the Fair Tax Commission. All of these schemes make eminent sense when you see them on paper, but when you try to implement them, you have a problem.

I was away this weekend with Alan Tonks, the chairman of Metro, and he said to me, "Every government that tries to do this will founder because the inequities are impossible." Crombie came up and said that the evaluation should be on current use as opposed to current value. A delegation that appeared before us last week showed a modest little house on Wanless, a two bedroom, tiny little bungalow, post-Second World War with a mutual drive. Their taxes were about $3,700. On the page right beside it there was a rather substantial house, two-car garage, four bedrooms in a beautiful neighbourhood; taxes, $3,500. Where is the equity? Then we had a member of this committee suggest, "Well, if you can't afford it, move." That is going to be a land-mine.

Mr McKeough: Is this in the city of Toronto?

Mr Kwinter: This is in Toronto.

Mr McKeough: Well, come on. The city of Toronto has opposed reassessment on any basis for as long as any of us can remember. The city of Toronto — and those people are the victims — are the authors of their own misfortune. The city of Toronto has allowed the taxing of apartment buildings at fantastic rates. I have no sympathy at all for a complaint which should be directed purely and simply at the mayor and council of the city of Toronto. Mr Tonks will tell you that they tried to bring in market value assessment across Metro, and the city of Toronto went down bitching and screaming, and still is, so find a better example than the city of Toronto.

Mr Kwinter: Let's just talk about that for a minute. It's one thing to say "the city of Toronto," as if to say everybody who lives in the city of Toronto is responsible for this situation.

Mr McKeough: No, no, it's the mayor and council, successive mayors.

Mr Kwinter: Fine. Then what do you do? Do you say to the people, "It's too bad for you; you're going to suffer because your mayor and council have not acted properly"?

Mr McKeough: But there are a lot of people in Toronto who are benefiting, an enormous number who are not paying enough taxes.

Mr Pouliot: Rosedale.

Mr McKeough: Sure. Forest Hill. Up until now, as I understand the act, a municipality has to request reassessment; Toronto has not.

Mr Kwinter: I don't think anyone is questioning the idea that there has to be fairness and equity, but that also has to take into account the ability of the people to pay. You can't just say to them, "Too bad, you've had a free ride for 20 years and now you're going to have to move." That is the political problem, and that is a problem this legislation does not address.

Mr McKeough: You're the politician; I'm just a citizen.

The Chair: We thank Mr McKeough, citizen, for coming in and presenting this morning. It's nice to have the history of the view.

Mr McKeough: There was a question asked earlier about write-offs. I got the figures from the city of Chatham yesterday, which are really very low and very remarkable. In property tax in 1994, 1995 and 1996, the city wrote off $15,000, $12,000 and $12,000 out of $12 million; on the business occupancy tax, a surprisingly low amount, $27,000, $27,000 and $55,000.

The Chair: It's obviously a well-run city.

Mr McKeough: Oh, no question. I was on the council here once.

The Chair: I suspected as much.

Mr McKeough: Thank you very much, Mr Chairman.

The Chair: Thank you, Mr McKeough.

Is the chamber of commerce of Chatham in the room? I believe Mr Robinson has not yet arrived. The committee will take a brief recess, 10 minutes.

The committee recessed from 0945 to 1001.

RALPH ROBINSON

The Chair: I call the committee back to order. Mr Robinson, welcome to the standing committee on finance and economic affairs.

Mr Ralph Robinson: Good morning. My first comment would be that my presentation has been put together very quickly. The second issue is that I speak only on my own behalf and not on behalf of my employer; I'm sure they would be giving you a position on their own.

As an individual, I don't think anybody would dispute the need for changes to the existing system, nor could we dispute that the changes have been discussed for far too long, with too little action or results. I have not had the opportunity to review the complete bill, but I have reviewed the assessment of it under the brief that was prepared, which I obtained from my member. I think the inequities are well placed there, and I won't go into that.

There are two stakeholders in the changes I would like to make specific reference to, though. In my view, for this area of the province, they're quite important. Those two groups are manufacturing and agriculture. Whether we like it or not, business in Ontario and in Canada today must compete on a global basis, and for this reason we must ensure that obstacles are not created to place these businesses in any kind of an unfair position.

Turning first to manufacturing, as an employer it's quite important in our part of the province here, and they're being challenged by the global marketplace as much as anyone. Whether or not a truck is assembled in Chatham, Ontario, or whether automotive parts are manufactured in Chatham or Alabama or any other place in the world means very little to the end user, assuming the quality standards are maintained.

In my involvement with the industry committee of the chamber of commerce and the industrial committee of the city of Chatham, we are constantly reminded by plant managers and senior executives that in order for their companies to remain here, they must be competitive. Property and business taxes are an expense that must be considered. On the surface, the provision in the bill for repealing the business occupancy tax looks encouraging. However, as I understand it, it remains for the municipality to recover those lost revenues. Taxation on this industry must be competitive, and municipalities may need guidelines to support this end.

Turning to agriculture, this industry, in this part of the province again, and I believe in all of the province and in Canada, has become a business as compared to a way of life, which it might have been in the past. Once again, farmers must not only compete with each other but with agriculture producers around the world. I for one happen to believe that the Canadian farmer, and particularly Ontario farmers, will do just fine on a world and global market basis, but they need time to adjust. Too much change too quickly could be detrimental to this industry.

In addition, from my study it's not clear how the local municipality will recover the lost revenues that would happen if only 25% of the agriculture assessment was collected on a local basis. I assume there would be some type of grant coming from the provincial level to the municipalities to make up for that loss of revenues.

I have not had opportunity to study the effect of Bill 106 on education funding, so I don't comment on that at all.

My overall concern with the proposed legislation is the suddenness and the disruption it would cause at this time. But as I said at the outset, I believe some change is long overdue and welcome.

Ms Bassett: Thank you for your presentation. In terms of the farm rebate tax, there is going to be a $1-billion restructuring fund that will be available to help those municipalities that are in difficulty. Some are going to have more difficulties, obviously, than others, so this will be there. That might answer some of your questions at the end there. I'll turn it over to other colleagues.

Mr Carroll: Mr Robinson, it's nice to see you again. Just a couple of things: I certainly empathize with your concerns for manufacturing and agriculture and the speed with which things are being done, but as we heard the previous presenter to you, Darcy McKeough, talking about 20 years ago when he was Treasurer, he wished the government had had the fortitude to make these changes, because they are long overdue, and you admitted to that too. So while it is quick, it's not in relation to when it should have been done.

The farm tax rebate for farmers in Kent county and the business occupancy tax total many millions of dollars. We are currently, as you know, under a restructuring process going on in Kent county. It will see savings in local government that will amount to, by conservative estimates, $12 million. So maybe we don't have to replace the farm tax rebate and the business occupancy tax. Maybe there is a way, with restructuring and coming up with a better way to do local government, that we can save enough money so that those can be legitimate savings passed on to the taxpayers in Kent county and Chatham, so our manufacturers can compete, so our farmers can compete internationally with the products they grow.

Do you not believe that instead of looking at how we are going to replace those revenues we should look at how we are going to do government less expensively so that we don't need those revenues? Do you not believe

that's a better approach to this problem rather than, "Well, we're losing it here; we have to find it over here"?

Mr Robinson: The point I would like to make is that I would be more concerned that an agriculture producer in Ontario have the same type of tax expense that a competitor, whether it be in Michigan or California or Australia, might have, because that's who he's competing with today. He's not competing with Manitoba or Quebec any more. If the municipal tax expense he's dealing with is unfair on a global basis, then he's got a problem to deal with. The intricacies of where the money comes from internally in Canada, I certainly don't have the expertise to deal with that. My concern is only that that producer remain competitive on a global basis and that the taxation issue be looked at in other parts of the market he's going to be competing with.

Mr Carroll: But if we can find some savings by restructuring local government so that we can reduce the tax burden on our taxpayers, is that not an advantage for those in business to be able to compete in that international market?

Mr Robinson: Very much so.

1010

Mr Hoy: Good morning. Thank you for your presentation. I'm pleased that the committee is here in a rural community to hear about this other aspect of the bill as it pertains to agriculture and that all the hearings weren't in Toronto. Perhaps we might not have heard so often the concern for the agricultural community. The farmers, of course, appreciate that the farm tax rebate program is removed for the purposes of — we'll call it red tape. However, the municipalities are short this $171 million throughout Ontario, and as I mentioned to Mr McKeough, some of the municipalities in this area, my riding of Essex-Kent, are short in excess of 50% of the revenues. Whether we can find savings exceeding 50%, and in some cases in Ontario 70%, for those rural people in my mind is doubtful. I appreciate your concern for that.

In light of the fact that the government is saying there is a $1-billion reinvestment fund, which by the way they claim will pay for all of the problems in Ontario, notwithstanding this particular aspect of the agricultural component, don't you think it would have been a better bill if they had put in here for the municipalities that are in the midst of restructuring, about to restructure or maybe haven't even started to think of it, that they would know for the next year where these moneys are going to come from and that they'd be replaced dollar for dollar, that $171 million?

Mr Robinson: In all fairness, honestly, I'm not in a position to dissect and so forth where the money comes from. The taxpayer is the ultimate sponsor footing the bill, and I think we have to do it on a fair basis, but that has to be looked at from a much higher level than I'm able to look at it from. The existing system of getting the rebate is basically a subsidy for the consumer. Anybody who is involved with agriculture knows that there are a lot more people going out of business than there are becoming millionaires in the agriculture industry, so any subsidies and grants and so forth that go to the farmer usually end up, in my opinion at least, as a grant to the consumer, because he's the one who buys the product.

Mr Hoy: I agree with you that it does benefit the consumer in the overall picture, but I guess the concern of the farm community — I've spoken with those major organizations — is that they don't know how these rural communities, for example, are going to maintain the roads when anywhere from 50% and up of their revenue is missing, is not there any longer. As well, under restructuring they're also very concerned that the cities will dominate and may not have great interest in the roads in some far corner of a municipality.

There are many things happening here, and I agree with you that sudden change and a disruptive condition exist right now. We need to be thoughtful about how we're going to approach the coming years. I suggest that in this regard the government hasn't been forthright in what their plans are. Thank you for your presentation.

Mr Kwinter: I just wanted to get your comment. I welcome your comments about your concern about business. The Canadian Federation of Independent Business is also concerned. They stated that on average, let's say a $200,000 property, if it's residential or business, the business pays about two and a half times more tax because it's a business, regardless of the value. Do you have any comments about the idea of like value, that it should be assessed at the same mill rate as opposed to the use?

Mr Robinson: When you get into that area — should taxes be collected through property ownership? — I think the studies of the federation would be much better than my view, so I really couldn't comment on that.

Mr Pouliot: Thank you very much and welcome, Mr Robinson. I, for one, appreciate the insight in your presentation.

It has been my loss through the years and I must confess to negligence; I know little, and what I learned vis-à-vis farming I learned through my colleagues. The closest I've ever been to a farm is at the local IGA store. I'm a consumer, and I can assure you I pay market value for everything I buy, but I leave it to those whose lives have been blessed by being exposed to the farming community.

I like what Ms Bassett has mentioned in terms of the obvious need, as we listen to presenters, of having a makeup fund. I like what you say about putting the brakes on or making sure the changes are well thought out and maybe spread over a longer period of time to give people a chance to adjust and to make up for the discrepancies.

My friend opposite does not suggest that if you get revenues in excess of 50%, as has been mentioned by Mr Hoy, it can be made up with efficiencies. People are already fairly lean. A grader is a grader. Their scope is rather small. You have to pay Harry Smith, the grader operator, with a paycheque. You can't save too much money on that. Duplication does not exist to the same extent as it might elsewhere.

Simply put, if you take more than 50% of your revenue from the farm tax, you can do a lot, but once you replace half a clerk-treasurer, it's not going to yield a lot of money. It looks good on paper, but you're not going to make up the 50% lost revenue. I think most people would readily acquiesce to that, so I welcome the

comment that some form of manna from heaven, some rabbit will jump out of the hat, will turn into cash and will make some compensation.

One of the problems we've had is that we don't know. It's happening all at once. I don't meet people who are opposed to changes, people welcome changes, but I go to the local coffee shop, Mr Robinson, and rumours take on extraordinary proportions. People don't know what they will have to pay for. All they know is that it's happening fast, and they would like to see the policies given more thought and be shown what the bill is so that inside, at the local level, they can make some more adjustments.

I share with you what you've said. There's a global entity at the manufacturing level; adjustments and changes take place all the time. But I wonder, again, about the capacity of government to deal with the people it represents, all Ontarians. There are only so many changes at one time that society will endure. I want to wish them well. I don't think they're badly intended. By the same token, there are a lot of discrepancies. It's a very diverse, very complex world, and you've got to give it a little more time to work. So I share with you: Come on, you guys, put the brakes on; don't scare people; don't encourage a counterrevolution.

The Chair: Any concluding comments to that, Mr Robinson?

Mr Robinson: My only concluding comment would be that very few of us expect our tax bills to go down. We welcome the inequities that presently exist being corrected. When you have that excess money, we all expect that you will use it wisely.

The Chair: Thank you ever so much for taking the time to make a presentation to the committee. We appreciate this kind of input.

WINDSOR AND DISTRICT CHAMBER OF COMMERCE

The Chair: We now welcome the Windsor and District Chamber of Commerce, Mr Fuerth. Welcome to the standing committee on finance and economic affairs. We look forward to your presentation.

Mr Tim Fuerth: Thank you, Mr Chairman, members of the committee. I'm sure you're all looking forward to finalizing this process of travelling across the province. I recognize at least a few faces that I've had the pleasure of making these types of presentations to, at least one who was the chairman of the committee dealing with the Tenant Protection Act in the fall. I think you'll probably see some of the same material coming from my submission.

Before I get into addressing the bill itself and certain of the concerns and potential impacts that it might have, in the submission paper I've distributed, or at least made available to you — we heard earlier about rumours spreading like wildfire and getting worse and worse, and I think it's important that people arm themselves with the facts — if you look at the second page of my submission, you'll see there's a bar chart. The source of this information is from the Organization for Economic Co-operation and Development, and it was published in March 1996. It sets out among the member nations in the OECD the level of property and wealth taxation as a percent of those particular nations' gross domestic product in 1994.

1020

Again, the facts are inescapable. The facts are that when you look at this particular chart, Canada ranks highest among the members of the OECD in terms of property and wealth taxation. What's particularly repugnant about that fact — you'll see there's 4% of GDP in property and wealth taxation — is that the other member countries also levy, in most cases, estate taxes, inheritance taxes and wealth taxes, which we don't particularly have in Canada, certainly not in Ontario.

What's also more significant is that not only is Canada the leader among OECD members in terms of property and wealth taxation, but Ontario even surpasses the national average. You'll see that the Ontario average as a percent of GDP of property and wealth taxation is 5.1%, whereas Canada is 4%. That's important, because those are the facts.

We heard earlier, from the last speaker, that we're really dealing in a global marketplace and that businesses have to be able to compete in that global marketplace. I think anyone looking at this chart would have some difficulty concluding that businesses operating certainly in Canada, and particularly in Ontario, with the high level of taxation, are really well positioned to take advantage of the opportunities that do present themselves in that global marketplace.

We heard commentary from the last speaker in terms of what the process is. I'd like to summarize some of the comments that were made by the members of the committee that are contained in my brief. Certainly the position we've taken is that to merely amend the Assessment Act and to put forward the Fair Municipal Finance Act really doesn't resolve the problem; it's really a symptom that there are inequities in the system.

The primary problem is that we have excess spending at all levels of government across the province. Really the approach that we foster being taken by the government, and I think they've established that path, is to take a two-pronged approach. The first approach is to minimize the inefficiency in government, rationalize the services that government is providing and ensure that the taxpayers are getting value for their dollar. We're quite confident that rationalization process would result in a significant reduction in the level of — I call it in my submission "the take or the skim" from the economy by local governments and the provincial government. Having reduced the overall level of taxation across the province, then we can deal with some of the inequities that are contained in the current system.

Our belief is that Bill 106 certainly addresses the second prong of the two-pronged approach, that being to reduce some of the inequities in the system. We believe that other initiatives the government is taking right now that are under way are a good start towards attacking that first-pronged approach, which is reducing inefficiency at all levels of government and restoring accountability to the ratepayers in Ontario.

Before I get into specific commentary on the bill, I'd like to commend the current government for their leadership with respect to a number of areas, but certainly with

respect to municipal property tax reform and property tax reform generally.

Approximately four years ago I made a presentation to the Fair Tax Commission. As members probably know, many of the initiatives that are being put forward now by the current government come more or less directly from the recommendations of the Fair Tax Commission some four years ago. I would submit to you personally that had the government of the day at that time acted on those recommendations, we wouldn't be sitting here today worrying about the impact it might have immediately; a lot of these impacts would have already filtered through the system and we wouldn't be worrying about them today.

I've also made several presentations over the years to the Honourable Mr Laughren in terms of his pre-budget consultation addresses. It's good to see that the current government is acting on many of the recommendations we put forward to Mr Laughren which never saw the light of day.

In addressing the bill itself, it's well known in the province — I don't think anyone is foolish enough or has their head in the sand long enough to believe there aren't inequities in the property tax system. In my particular capacity and employment, I'm mostly involved in multi-residential property, and so you'll see that most of the report I've submitted to you addresses certain of the inequities in residential property assessment, particularly multiresidential property.

We have seen examples with multiresidential properties, for instance in Toronto, where $1-million houses along the lake are paying less taxes than one- or two-bedroom apartments. I'm sure that through our member organizations you've seen those statistics.

The bill, in terms of requiring annual updates to property reassessments, we encourage. In Windsor, we're currently operating under market value assessment. Our base year is 1984, and so you can appreciate that since 1984 in Windsor there have been both dramatic changes in the relative values of the property classes as well as very different directions in terms of the way those values have gone. We believe an annual updating on the reassessment is fair; it keeps the values current, and you're not paying for taxes that may have been fair 15 years ago. You're kept in line with your competitors.

The three-year rolling average will be beneficial in terms of smoothing out. We heard earlier in the presentation there is a concern of smoothing out and making sure that people aren't susceptible to 50% tax increases, and the three-year rolling average that's contained in the proposed bill would serve that purpose.

With respect to the business occupancy tax, I don't want to say an awful lot other than that it has been unfair, it's arbitrary and, again, for many years it has been recommended that the business occupancy tax be repealed. We share the concern of the previous speaker that the bill also gives it to the municipalities, however, to modify their class factors in terms of local property assessment. Our real concern is that the loss of revenue from the business occupancy tax will simply be added back on the backs of businesses through higher assessments for business and commercial properties. We share that concern and we encourage that when the final document is prepared there be explicit guidelines in terms of how that deficiency is going to be shared.

The Ontario chamber has been on record that there is really no need to replace the $1.7 billion in business occupancy tax, that it can easily be recovered through efficiencies at all levels of government, that really there is no need to replace that revenue.

The concern in my particular business is that as a landlord with gross leases on commercial properties, if the lost revenue from business occupancy tax is heaped on to commercial-industrial properties with a gross lease, those tenants will no longer be paying the tax, but as a landlord we will be, and we think that's abundantly unfair.

We see the streamlining of assessment appeals as a real advantage. We have a number of properties that have been under appeal for the 1995, 1996 and 1997 taxation years. We see no light at the end of the tunnel in terms of having the Assessment Review Board hearings. Many of the items we feel we would very easily be able to deal with with the local municipality, with representation from the assessment office, and the current system doesn't provide for that. We have to wait for the ARB hearing. It's important for the municipality as well to know what their projected revenue is going to be, so if they're waiting for three years in our case to see that they're going to have, hopefully, a substantial reduction in their revenues, it's important for them to plan for that.

There has been some discussion in terms of using different values for properties — unit values, current use values and so forth. Our view is that the only fair way to assess the property tax burden is to base it on the values of the properties, and as I've indicated, we believe the current value to be the most appropriate value.

We have some concerns in terms of the sharing of the property tax. The current system provides that the residential rate is approximately 85% of the industrial-commercial rate. For years the chamber has been on record that the business sector has been overtaxed in relation to the residential. It's difficult to argue with that fact when in virtually all municipalities the mill rate for the commercial assessment is roughly 15% higher than for the residential sector.

I know that Mr Carroll has heard this before, but I'll repeat it again for his benefit. Dealing with multiresidential properties particularly, Windsor is very heavily taxed with multiresidential properties. If you look at the example contained in my report, if we had a property that was valued in 1984 at $100,000, whether it be a residential property or a multiresidential property — and I don't want to waste a lot of time going through the numbers as to how you get to your final tax burden; they're clear in the submission — the nuts and bolts of it is that if you have a house that's worth $100,000, your assessed value for property tax purposes is $17,500; if you had an apartment or multiresidential property that was worth $100,000 in 1984, it's $35,500, double the tax burden, notwithstanding that those properties had identical values.

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It's difficult to argue with the equity of that scenario, particularly when they're both residential properties; it

just happens to be that one is multiresidential. I'd submit that the reason the taxation burden for the multiresidential properties is so high is that those tenants don't get a property tax bill and the landlords don't vote, and so why not hide the tax in the multiresidential properties, where the tenants won't see it? Really most of them don't appreciate how much tax they're actually paying for the services, or lack of services, they're getting.

We've seen circumstances where it's difficult to ignore, at least for this discrepancy not to be visible, particularly in condominium conversions. We've had condominium conversions in the city where we'll have two identical condominium units in a high-rise complex, side by side, exactly equivalent in terms of size, decor etc, and what we've found is that once those units are sold and the people occupy those units as their own residences, the property taxes often are reduced as much as 50%. It's difficult to convince a tenant he should be paying 50% more in property taxes than someone who buys the unit and lives in it.

In the presentations we made on the Tenant Protection Act, this matter came up. We're happy to see that at least some measures are being taken to remedy the inequity. Social housing groups are always looking for ways to reduce taxes, and an equalization of the tax system between residential and multiresidential based on market value will go a long way towards reducing the cost of operating those properties and hence the rents the tenants are paying. As everyone knows, most of the people renting are the most vulnerable people in society in terms of their levels of income.

The other interesting example contained in my submission where we see a real inequity in Windsor is situations where we have multi-use properties, where we have a property, for instance, that's got both a commercial element as well as a residential element. One that I think everyone can visualize is a high-rise tower where the top floors are apartments and the bottom floors, or some of them, are commercial.

I've again contained in my submission factually — and I think it's difficult to dispute the facts — an example of a property located in Windsor on Goyeau Avenue. I'll be happy, if someone wants to know the name of the building, to tell them. What's contained in the report is that for this particular property, when market value assessment was done in 1984, the commercial element was valued at $4 million and the residential portion was valued at $3,599,000.

The current system allows for only one factor for a property. So it's not as simple as to say, "Well, it's simple; in this case, you assess the commercial area at the commercial rate and you assess the multiresidential area at the multiresidential rate." In fact, this was appealed to the Ontario Supreme Court. When a party won on this particular point of law, the previous Treasurer retroactively amended the regulations to the Assessment Act to get around dealing with the inequity.

But in the case I indicate in my submission, it's very clear — and I deal strictly with the multiresidential portion of the property — had those units been assessed at the multiresidential rate, much the same as any other high-rise, multiresidential properties that are sitting next door or across the street, the taxes would have increased from $169,000 in 1996 to $262,000. I'm never one to endorse higher taxes, but I am one to endorse equity in the system. Clearly where you have a property sitting across the street from this complex which is paying considerably more property taxes on the same product, the same units, there's a real inequity in the system that skews the fairness and gives this particular property owner a tax advantage.

Some of you may find that interesting, but the local officials in Windsor have endorsed — if not on the record, off the record — that they support use of multiple factors for multiple-use properties. They feel that it's not a situation where the technology doesn't exist today that you could assess all these properties at the different factors.

Dealing with the phase-in measures, the municipalities will be afforded the opportunity to deal with the phase-in of the consequences of this particular bill over eight years, which seems to be fair. I think eight years is a very long time. Had the previous government dealt with this four years ago, we'd be halfway into that term in terms of dealing with these transitional issues. One might argue — and I would just put forward as a comment — that if we acknowledge there are inequities in the system, is there really a basis to continue those inequities for eight years? If there are inequities, the inequities should be addressed.

In summary, I'd like to just say that we appreciate the opportunity to make our presentation to this committee. As one of the member chambers of commerce in the province, we represent business and business's interests. People think "business" and "profits" are dirty words. It's important that business have the environment in which to be able to compete internationally in the global economy, because all the taxpayers have jobs working for those businesses. If businesses can't compete, they can't employ people.

The Chair: Thank you very much. It gives me pleasure to introduce a former member of the Legislative Assembly, Mr Andy Watson, formerly representing this area, I believe. Welcome to the committee, Andy.

That leaves us about two minutes per caucus for questions. We'll begin with the official opposition.

Mr Kwinter: Mr Fuerth, one of the provisions of this new Bill 106 is going to allow municipalities the option of using as their assessment value its current use as opposed to its current value. That is going to mean that it is quite possible that identical properties in different municipalities will be assessed at different rates, which is exactly the problem they're trying to solve. Do you have any comments on that?

Mr Fuerth: Our comments would be that it's difficult to argue with a circumstance where you have identically-valued properties paying different taxes. In other words, we don't support the current use values.

Mr Kwinter: But as I say, this bill provides that option for municipalities. I can tell you that the people who are responsible for administering it, the people in the municipalities, see this as a major concern; not only that, but the regulations are very ambiguous. So it doesn't solve the problem that the thrust of this bill is supposed to solve.

Mr Fuerth: In that particular aspect, our view is that one method of evaluation should be adopted. Otherwise, every time you allow these options, every time there's an option, every step of the road, all you do is introduce complexity back in the system and the concern by the ratepayers that the system is unfair, that someone is gaining an unfair advantage over them and that they're paying more than their fair share of the property tax burden.

Mr Kwinter: The other part of that, of course, is that it opens it wide open for more appeals and has the same problem you're trying to address now with your appeals.

Mr Fuerth: That's correct.

Mr Pouliot: I too did appreciate your presentation. You mentioned in your presentation as an opinion that the shortfall with the reductions and the elimination of the BOT should not be made up by another class of taxes, nor by a grant from the government; that the savings can be generated, can be found by more efficiency.

I wish to suggest to you, and I know the members you represent will be appreciative of this government's initiative, in terms of Windsor, just keeping in mind the industrial sector — and people don't have a choice here — once you're finished with Ford and Chrysler — just think of the floor space — vis-à-vis the BOT, they will pay substantially less. They are the big winners, big time.

That shift will go to the smaller industrials, make no mistake about that, because it is worked into the system. Then, come levy time, the township council will be asked — because we're talking about tens of millions of dollars here — to go to the commercial level to make up the shortfall, because we might say they're overspending, but they will say, "No, we've been trimming for years." Regardless of what both sides' opinions are, they will be the elected representatives.

Then they will go to the residential levy, and they will count houses and say: "We represent all the people in Windsor. Where do we pass the shortfall? We must find so many millions of dollars to provide essential services." They will go to the commercial and they will say, "There are so many of you and so many residents." The realities of life.

Your membership, the people you represent, mostly made up of small and medium-sized businesses, are expecting a tax decrease. Most people I suspect are not too concerned about what title, what umbrella. The bottom line is, "How much tax do I pay?" because they feel that they overpay.

Well, surprise, surprise. The municipalities — I haven't found one yet going through the province — when asked will the taxes stay the same, increase or decrease, not one said they will decrease; most have said they will increase. And who will take the hit? "Oh well, we'll have to look at possibilities under a new tax class to go back to the commercial."

I'd like your comments. I hope this doesn't happen. I too pay too much tax. I appreciate the services, mind you, but I pay a lot more taxes than I should.

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Mr Fuerth: I certainly appreciate your asking my comments, and I guess I'd like to make two comments.

First, I appreciate that this committee's been travelling across the province. This Monday past in Windsor there was a decision before the local council and the decision involved contracting certain municipal services, in this case parking enforcement in the downtown area, to a company in London. The savings that the administration recommended, that the contracting out be done, were approximately $1 million a year. Unfortunately in Windsor we have an election this year, as in most municipalities, if not all.

Mr Pouliot: Unfortunately.

Mr Fuerth: In any event, the council actually opted not to go with its own administration's recommendation to save $1 million. That's just a recent example. So when people tell me that there aren't savings in the system, this is a very, very small portion of the delivery of service in our municipality where there's $1 million on the table to be saved and the local council chose not to save it. I think that will come back in due course to affect them.

Second, in terms of the commentary that there will be a shifting of the burden, let's assume for the moment that of the $1.7 billion, perhaps $1.2 billion will be recovered through efficiencies, and there's half a million dollars left to come over. Is it unfair that all tax classes should be asked to pay for those costs? Is that unfair? It's the people, for instance, the property owners, who have their jobs with the employers, who earn their living with those employers to be able to afford those homes. I don't, in my personal point of view, argue that it's inequitable that the tax burden be shared by all classes. I'm not suggesting just a residential class, I'm not suggesting just a commercial, but all classes. I have difficulty arguing with the unfairness of that.

Mr Pouliot: And you're not running for office.

Mr Fuerth: No, I'm not running for office.

Mr Spina: Mr Fuerth, it's good to see you again and thanks for coming. The one area that you talked about, which was the property classes, was a concern about how wide these might be and what kind of controls there may or may not be. There have been some proposals tabled by the ministry, and they were presented to this committee on the very first day after the finance minister made his opening comments, that in setting the tax rates municipalities would be required to follow provincially set tax ratio ranges.

Further, for 1998 the Ministry of Finance would determine the transition or the starting ratios. Furthermore, the province will define a tax ratio range for each class of property, and transition ratios that are outside the ranges could be retained, but any future changes in the ratios must move closer towards the ranges.

Do you feel that those policies would assist the municipality in keeping some degree of control? From the taxpayer's perspective, it at least prevents a municipality from running rampant and trying to jam taxes too high, particularly to small businesses, as my colleague indicates here, and really would permit them enough flexibility to vary the revenue and recover some of it, but also make it a fairer system, which is the objective we're trying to achieve.

Mr Fuerth: Yes, I quite agree with that particular comment. The key in all this is that there be some very clear, well-defined ground rules for all parties to follow to avoid exactly that scenario where, for instance, because

the municipal election is coming up — let's take an example — and the industrial and commercial property owners don't vote but the residential property owners do, there's obviously a desire to shift some of those costs — and I'll argue inefficiencies, albeit not 100% — to those people who don't vote and keep the people who are going to vote you back into office happy. Those measures will go a long way towards that. I haven't seen the specifics yet.

I do know from the particular business I'm in, which is multiresidential property, that in our case the discrepancy between, for instance, the residential class rate of tax and the multiresidential class is approximately 100%. I also know from discussions with colleagues and with members of the assessment office in Windsor that in London, as an example, the discrepancy is more in the neighbourhood of 10% to 15%. So we're very heavily taxed and I think anything that will bring us as a municipality back to that equilibrium or fair level is important.

The other important point is that you need to have those overall guidelines to ensure that businesses aren't being lured from one municipality or jurisdiction to another one because one happens to have a lower rate of tax on a particular type of business. I think those kinds of guidelines will avoid the ability of municipalities to lure business and jobs away from other parts. Stealing jobs from ourselves doesn't do any good. We want to be out stealing jobs from the Americans, from the Mexicans, from the Indonesians. I think we're very shortsighted in trying to fight with each other over the jobs we have. I think we're missing the boat.

The Chair: Thank you very much, Mr Fuerth. We appreciate your presentation and your point of view on this bill.

STEEVES AND ROZEMA ENTERPRISES

The Chair: We now welcome Steeves and Rozema Enterprises Ltd, Mr John Rozema. We look forward to your presentation.

Mr John Rozema: Thank you for the opportunity to appear here this morning. My name is John Rozema. I'm president of Steeves and Rozema Enterprises Ltd.

Steeves and Rozema has been in business in southwestern Ontario since 1963 and we've been active in development, construction and management of residential rental and condominium accommodations as well as some retirement facilities.

I serve on the board of the Fair Rental Policy Organization of Ontario and on the board of the Sarnia Property Management Association.

There are many issues in Bill 106 which concern me, but I want to focus on the difference in tax rates between the two classes of residential properties: the buildings with six or less and those with seven and over.

I'm very concerned that the provincial government is backing away from ending the discrimination between these two classes, ending the discrimination against tenants. The inequities are so obvious and have been pointed out by the Fair Tax Commission very clearly, and by several other studies, I understand, which I haven't read. Tenants are now paying on average in the province more than twice the taxes on their homes as the homeowner does on a home of the same value. Studies have shown that homeowners have almost twice the income of tenants in apartments. This makes the regressive nature of this tax even worse than you think at first sight. Not only are the cheaper homes taxed higher, twice as high, but it also happens to be the people who have the lower income.

I know it's another point, but apartment buildings are much less demanding of services from the municipalities. They are more energy-efficient and, if anything, they should be taxed at a lower rate than single-family housing.

I just read the report of the CFIB on Ontario's property tax. It says in here, "Municipalities should, as a matter of policy, tax property classes in proportion to the levels of local services they consume." This principle will bring fairness to the property tax system and restore government spending accountability to their electorate.

1050

What they're also proposing is that an independent study would be done to determine which classes of property are using how much of the municipal services.

The property tax inequity brings the rents of apartments up approximately $50 per month or $600 per year in cities like Sarnia and Chatham. If the two classes of residential property were equally taxed — I did some calculations on that in Sarnia — the apartment tax would go down from $1,200 to about $600 per year and the residential class would go up 5%. Nothing devastating, nothing serious, just 5%, but look what it would do to the tenants.

This is another point in my presentation: It should be made very clear that 100% of that tax reduction on apartments is passed on to the tenants. In the long run the market would take care of that, but in the short run we're in a beautiful position because we still have rent control in place. So you can now simply say that the taxes go down that much on units that have seven or more units, therefore the maximum legal rent goes down that much, goes down by $50 a month or something. So the opportunity is right there now to do that, and without any extra cost; simply send out notices.

In some municipalities it may be necessary to spread this equalization out over a number of years, and perhaps it should be spread out over five years. In Sarnia, which was just amalgamated with Clearwater, we went through an equalization there and it's spread out over five years. The difference is far greater there than it is between the two residential property classes, although when I'm saying that, maybe some time should be taken to adjust it. It is difficult, I think, to justify why an inequity like this, perpetrated for so long, should continue. I think this is a beautiful chance to correct it once and for all.

Thinking about why this ever happened, I think it's shameful why it happened. Tenants have never been informed of the taxes they pay. They've been left in the dark. I could never understand this, but as I got into it a little more, I finally understand why it is: because they're taxed two, three or four times as high as homeowners. That should be exposed. If we believe in democracy, this has got to be known. It's got to be open. It would be

much better if tenants were treated the same as homeowners and probably had to pay their own taxes, or at least be notified.

I have a little sample here of what landlords have to go through to notify their tenants of this. In some of our buildings we used this, posted this notice — that was in Bob Rae's time — to let this be known. We told them how much the taxes were, how much they would be if they were taxed the same as the bulk of residential properties. Actually, something can be done there. At one time we had enough tenants in the council chamber in Sarnia to fill it up about this issue. However, with the convoluted system, the city cannot change it. It's the province. The province says, "We don't set the taxes; it's the city that sets the taxes." So this has been a very frustrating thing and I think it is a great time to change this.

It is good in Bill 106, the way I understand it. It makes it possible for the municipality to address it now. That would be an improvement, but it would be so much better if the municipalities were required to eliminate this injustice once and for all. I really urge the committee to do that and be strong on this. I think you'll be pleased when you talk to people around you that you've straightened it out.

This is basically my presentation. I did bring some material about one particular property that we have here in Chatham. It consists of 20 town houses. There's a 10-plex, a sixplex and a fourplex. The sixplex is taxed 50% lower than the 10-plex. They're the same kind of units, built at the same time, same layout, everything. It's interesting that the assessor estimated the market value of the sixplex to be about 10% higher than the other ones. My guess is that he felt guilty because there is no difference, so probably the rules allowed him to do that, but it's too bad they have to resort to things like that. It ended up that the 10-plex still pays about 40% more in taxes per unit. The rents are the same, the layout, everything is the same.

Another irony is that on that project — it's right here, Trillium Village in Chatham — there's also a fourplex. The fourplex has been thrown in with the 10-plex, also at the higher rate. We're appealing that, but that's the kind of thing you end up with because there's no rhyme or reason for it. That's my presentation.

The Chair: Could we start with the third party? It's about two minutes per caucus.

Mr Pouliot: Thank you very kindly. I want to wish you well with your appeal. Presently there are about 300,000, and it's estimated that with the new reassessment you will have an additional 600, so I invite you to grab a number early, and I'm happy that you did in your case.

This is good coffee. Sometimes we get instant coffee, which will go with instant assessors, because they're training them, giving them 12 bucks an hour. They've contracted $62 million for the massive assessment and reassessment and those people get one day's training, so I'm happy that you'll have the opportunity to appeal because there's going to be one heck of a lineup when they're finished with this.

You've mentioned in your most welcome presentation that local taxes, property taxes should pay for local services. I want to get this clear, as I'm a notetaker. "Local services" means sewer and water, it means police service and protection. Does it mean general assistance? Does it mean library? Does it mean social housing? Does it mean dealing with the demographics? The litany is about this long, the new services which are about to become local. It won't matter what they say, it will matter where you live, because they're under the impression — well, they're right there — that the federal Liberals dumped about $3 billion of transfer payments on to them. For a while they felt overtaken so they said, "What do we do?" One of them among the lot said, "This is what you do: You pass it to other elected people and then you smokescreen." They talked about assessment and so on, so it's a bit of a shell game.

The fact is that there is $2 billion missing when all this is said and done, when the smoke clears. You're our property owner, by God, your little piece of heaven. You probably have, judging from the sentiment, and it's most welcome — you blend common sense and you also blend the human dimension of the poor tenant. The poor owner is appealing on behalf of his poor tenants.

The Chair: Thank you, Mr Pouliot. I believe the question was asked.

Mr Pouliot: How do I read you, sir?

The Chair: I believe the question was asked.

Mr Pouliot: Thank you, Chair.

Mr Rozema: As far as the services are concerned, how they're used by different types of buildings, I think that mainly refers to sewer, water, roads, public transportation, because you tend to avoid the urban sprawl that you get with single-family homes. There's nothing wrong with single-family homes, of course, don't get me wrong. I live in a single-family home. I choose to live there. I pay taxes accordingly. I think I'm not paying enough. It should be 5% more because of the expense of a small number of people who choose to live in multiple-family residences.

I liked your other comment about passing it down. I think there is something really good about that. Being in business, some time ago I listened to — and I forget who it was now, but somebody who was really admired for running such a good business, and one of his rules was: "We always make a rule to have the decisions made at the lowest possible level in the company. And why is that? Because that's where the best decisions are made." In a democracy I think that's where people should know, and that's why the municipalities should have more say — I agree with the previous presenter — not to compete with each other, but let people know and let them decide whether they want to spend it on libraries or on roads or on social services.

1100

Mr Carroll: Thank you, Mr Rozema. The first thing I'd like to do is thank Mr Pouliot for his comment on the coffee. We appreciate it. I'll pass that along.

Affordable housing is a social issue in our province; the ability for municipalities to eliminate the inequities that currently exist between the rates of property taxation on apartment buildings as opposed to single residential units. In Windsor, we heard it's twice as much. In Toronto we know it's four times as much.

A couple of questions: The ability of municipalities to solve that problem through this new tax system, do you see that as reducing rental levels on apartment buildings, thereby providing more affordable housing for people who need it, and second, do you believe there should be a provision that landlords have to disclose to tenants how much tax there is on their units?

Mr Rozema: I would certainly like that the landlord disclose it. Whether they should have to, I don't really think so. I think the municipality should do that. Treat all people the same. They're all voters. They're all citizens. Whether they live in a $1-million house that they own or in an apartment that's worth maybe only $50,000, they should be informed of what they pay, equally. The municipality should do that.

Mr Carroll: Why do the landlords not do it now?

Mr Rozema: Well, landlords have lots of work. There are lots of things, lots of regulations. They do it sometimes, and they should do it, I agree. We do it sometimes.

The other point that you made about social housing, I think that also should be made by the municipalities, not by the province. In Sarnia, we have in my calculation some 2,000 vacant housing units; still a very high vacancy.

The province — it was under the previous government — decided we needed more social housing. They did a survey and they have never found, when they did a survey, that they didn't need more social housing, because people know a good deal when they see one. It is very good housing. Actually, our company is in construction too. We built one of those 60-unit complexes, co-op housing. It cost the province $6 million. I did my calculations based on sales and so on, and the day we were finished it was worth $3 million. It cost the taxpayers — that's all of us — $3 million, just like that.

If it had been a decision made locally by the city council, it would have never been built. It just doesn't make sense. Now, we were glad to have that job, we built them, and I'm proud of the building, but it should have never been built. It's probably 80% filled now, but they sucked people from other social housing units that were a couple of years old.

Mr Kwinter: Thank you, Mr Rozema. You mentioned the issue, and one of the previous presenters did as well, that the tenant doesn't know what the tax payment is. The previous presenter suggested that the municipal politicians like that because they can charge commercial and industrial people more because they're not voters, like the landlords per se, and the tenant doesn't know what they're paying anyway, so it doesn't affect them.

One of the problems, and Mr Carroll mentioned it earlier today, is that rather than look to see how you can allocate your revenues, maybe you could cut costs so you don't have to worry too much about that allocation. In the real world, if anything, costs are going to be going up, and the municipalities are going to have to get that revenue somewhere. Everybody is downloading.

How do you reconcile the need to look after the services that are being downloaded, the costs that are going up — just as a matter of inflation, regardless of how low it is, they're certainly going up — and the possibility of reductions in an environment that is really pretty lean anyway? How do you reconcile these two differences?

Mr Rozema: I'm not so sure that the total property tax should be lowered, because of the need for money, for services and so on. To live in a civilized world, we want to have services that we pay for together, no doubt. I'm mainly addressing the point of the discrimination between the two classes of residential property, the most glaring case of discrimination that I know of.

Mr Kwinter: The point I'm making is that there's lots of discrimination throughout the system, but the end result, as you say, you don't think that property taxes should be going down. So the minute you start adjusting, when you take it from one, you've got to find somewhere else to get that revenue and you've got to put it somewhere else. That's the concern that a lot of businesses have. They feel they're going to be the ones. They're the last guy in the line who has the least influence really when it comes to voting capability, and it's going to be offloaded on them. It all depends where you are in the hierarchy of offloading.

Mr Rozema: I like the KIS principle, or keep it simple, and I think it would be much better if the same class factor was used all at the same tax rate. If your property is worth $100,000, you pay $1,500 in taxes and if it's worth $200,000 you pay twice as much. I think that would be the best. There are all kinds of problems that result; these court cases you mentioned earlier. I know of a case where a building is partly commercial, partly residential and it has been going through the courts for years to settle that. How should it be classified? Should it be to have a split factor?

You wouldn't have that if you just treated everything the same. Now you may need in some situations, especially Toronto, I suppose, a kind of phase-in period, but then the result would be that municipalities and people would look at this and say, "Well, if I build this way or I do that, it's going to cost the municipality more, therefore I will have to pay more taxes." So in the long run, it would create more efficiency in the system.

The Chair: Mr Rozema, thank you very much for your presentation today and for taking the time to answer the questions so thoroughly. We appreciate your input.

SHAREN REALTY

The Chair: We now welcome Mr Bob Sharen from Sharen Realty. We look forward to you presentation.

Mr Bob Sharen: Mr Chairman, committee members, thank you for the opportunity to make a few comments, and listening to the questions, I have a few more to add. First of all, I think the initiative to update this important piece of legislation is commendable.

I'll give you a quote from a book. It says, "Nothing by the wit of man is so sure or so well devised or so sure established that with the passing of time it does not become corrupt." This is the situation with the Assessment Act in my opinion.

While I laud and support the effort to update the act, I have concerns as well. I ask you to consider some of these concerns for future modifications. It is important to point out that in disagreeing with the assessors I

recognize the many good, hardworking men and women employed in the field. Over the past few years I have become a friendly adversary with several.

The Assessment Act affects everyone in Ontario in their everyday life. You might say it gets us where we live. The move to biennial reassessments and going to annual assessments is excellent. People will be better able to relate to the more current values. It's hard to remember what properties sold for four years ago, even when it's your business.

The more recent annual values allow the assessors to more accurately react to major market changes than the four-year periods allow. A prime example of this is the sharp decrease in value of properties along the lakeshore after the September 1995 incident at Ipperwash Provincial Park. Prices plummeted; assessments remained fixed.

Presenting over 100 articles in support of the fact that there was a great deal of adverse publicity affecting the area had no effect on the chairs of respective assessment review boards; this even though one chair borrowed the exhibit for a week or so to study.

1110

Annual reassessments will remedy this inequity. Paragraph 6 of subsection 14(1) states, "Market value of the parcel of land." Subsection 19(1) states, "Subject to this section, land shall be assessed at its market value." Subsection 19(2) states, "Subject to subsection (3), the market value of land assessed is the amount that the land might be expected to realize if sold in the open market by a willing seller to a willing buyer."

This in fact does not happen, the excuse being that it is a mass appraisal and therefore a median will prevail. That's wonderful, providing you have a property that lies below the median. If you're above, it's a different story.

We say that we have county-wide market value assessment in our county. That is not correct. We have market value by small areas. If we had true market value across the county or the total area affected by the assessment or reassessment, no assessor would fear having his or her work in another area of the assessment area compared to that of the appellants.

This is not the case. Every time the subject is raised the assessors hide behind section 60. Section 60 contradicts the idea of market value across the assessment area. Section 60 also refers to equity between similar properties in the vicinity. Please note that there is no definition of "vicinity" in the act. Vicinity has been held to be one block. It has also been held to be many miles. This section 60 should be deleted, because if there is no equity between Euphemia township in the south part of Lambton county and the town of Bosanquet in the north, you have a problem.

The disparity between residential farm lands and other residential lands is astonishing. I give you the example of a 5.05-acre parcel in the town of Bosanquet recently sold to a non-farm couple. No severance was required as it had long ago been severed. The new owners received an amended or omitted assessment notice adding $59,000, factored at $3,127 to the existing assessment. This amounted to about a $700-per-year increase in taxation. Bear in mind that neither the land nor the land's use had changed. The only change was that a city person now owned the subject property. There is no question that the Assessment Act and system are long overdue for updating.

Item 4 in the overview of Bill 106 says, "Business occupancy tax eliminated." That's good. The good could be overcome by two other items, however. The first is that the local council can set tax ratios to offset the revenue decline. If this is done effectively, there is still a BOT on commercial properties.

The second problem is the right of the upper-tier governments as follows: "will have the power to set the tax ratios within their jurisdictions." That's item 10(1), paragraph 3. This can and will be abused to the detriment of commercial development within the member municipalities. If I am correct, the implementation of this by the upper tier will result in an impediment to achieving the proper 60-40 residential-to-commercial ratio. It can also lead to artificial urban-rural levels of taxation.

The comments were made here that municipal politicians will look to setting rates of taxation because of the greater amount of money they receive from certain levels of property. I can tell you from experience, no politician, until they get into doing assessment appeals, realizes the difference. I was not aware that if you had a residential unit as part of a commercial property, you paid a much higher rate of taxation on that property than anywhere else. I was not aware of the numbers of different ratios that they assess against various residential tenancies.

The tenants do receive an assessment notice but there is no mill rate given with that so they can do a calculation. It would be quite simple if they had it, but the more you become involved with an issue, the more you begin to understand it. While I was introduced as being in real estate, my friends in assessment would tell you that I am a community activist, or they might call me an agitator from time to time because I believe in equity. I believe that you're moving towards equity with this legislation, and I hope you continue and perhaps make some more changes as time goes along so that we truly have equity in assessment. My taxes on my home will rise if we have equity. That's fine, provided we have true equity with everyone.

I'll close by saying that I commend you for undertaking this onerous task. You have probably pleased no one. All the experts most certainly could do it better. In the end, however, Ontario will be a better place for the effort. I guess it all comes down to one issue: There's nothing so constant as change. I hope this is only the start of an evolutionary process that will lead us to the best assessment legislation in Canada. Thank you and good luck, you'll need it.

Mr Douglas B. Ford (Etobicoke-Humber): It's been refreshing to travel across this province, being from Toronto and constantly, as you see in the newspapers, getting flak from disenchanted people with the market value assessments in the various areas and talking to the mayor there, the patchwork of assessment. I see down here in your area you have a little bit but not the extreme problem they have there. You're talking about assessments back in 1984; there we're talking about assessments back in 1942. So you can see the inequities across these various areas.

Looking at what you were talking about here, Bill 106 gets rid of section 60 in the Assessment Act. I see properties being assessed at a higher rate than single-family residences; I'm a person who looks at this, and if you were to tell the tenants in various apartments what tax rate they were paying, and if the government started to collect from them, as you could see and understand, it would be a very difficult problem.

Mr Sharen: That wasn't the point I was making. I was just making the point that they should be aware that they are paying a much higher level.

Mr Ford: Yes, I can see that too. But then it comes to the point that probably these people would want the government to collect the tax rather than the landlord collecting the tax. That's a possibility. In other words, right now, you're renting on a basis of a net-net lease, everything thrown in.

Mr Sharen: If I might, that's correct, and that would continue. I have no problem with that, but what I'm saying is that the tenant receives an assessment notice as to the unit or the space that they occupy as to how much that is assessed at. A very simple matter would be to put the mill rate with it so they can calculate how much they're paying; nothing extra in cost, one more line by the computer.

Many of these people would like to own their own place, but in the case of commercial in our area, because they're using the factored system, the commercial property is assessed at 150% of the same valued residential property and that is negatively affecting those people who can least afford it, because normally people renting a portion of a commercial building are renting it because it's a lower-echelon place to live.

Mr Hoy: Thank you very much for your presentation. I'm curious about this farm land property you were talking about. I'd like to ask you some questions and hopefully you'll know the answers to them, but I would also understand if you did not, if you weren't personally involved in it. The farm land in question here, the taxation went up $700 per year, you say, because a non-farm couple bought the land. Is the land still zoned agricultural?

1120

Mr Sharen: The zoning on the land I think would be residential there. It could be agricultural. They classify it as being part of the farm even though the 5.05 acres was in no way farmable because it's pure sand. But because a farm couple owned it and had previously owned the farm that was adjacent to it, that never changed until there was a sale.

We have benefits to farmers, and rightly so, but their farm home and an acre around it is supposed to be assessed at market value. If this is a situation where they're still using the acreage value, that home and the lot that it sits on are underassessed, and therefore you and I — and I'm guessing you live in the city — those of us who live in the urban areas, are subsidizing that and that's improper.

Mr Pouliot: Thank you, Mr Ford, for net-net. I think we were referring to a gross lease.

Mr Sharen, if you look at all taxes, all perception of revenue under tax at the personal level, at the corporate level, governments tend to prefer a progressive kind of system. I'm just wondering when it comes to assessment, where we look at the value of property but nowhere in any act will you see an assumption vis-à-vis ability to pay that goes beyond the value of property because we do so at the personal income tax level —

Mr Sharen: Excuse me, but in actual fact the Assessment Act does take that into consideration, because there is a progressive rate against businesses. It was originally based on the ability of that type of business to pay more than another type of business.

Mr Pouliot: The point is well taken, and I thank you. I know so little about these things. We've been reduced to a very humble and small lot — some will say thank heaven — courtesy of the electorate. That's okay, we accept our fate. So therefore we have a lot of committees. I'm by myself here representing our party, and I'm sitting on two other committees.

Is market value assessment the same as what the market will bear?

Mr Sharen: No. It is supposed to be but it is not. It is done to a median because it's done on a large basis of properties. There is no way, with the number of assessors they presently have, I'm told, and I have no reason to disbelieve it, that they can visit every home and make sure that they are as accurate as possible. The degree of accuracy is reasonably high; I've done about 300 appeals.

Mr Pouliot: I need your help again. I came to this province to learn English, so sometimes I get a little confused. I thought market value was what the market will bear. Is current value or actual value the same as market value? I've got my two dictionaries at home, and the one is Oxford, the other one is Webster's.

Mr Sharen: My understanding of the English language is that market value and actual value are identical. In a simple world, the assessment would reflect either actual value or market value. We're dealing with a factor of error because it's human, and my concern is the factor of error be lessened.

Mr Pouliot: To give you an example, because I read the paper, and it says —

The Chair: It's a very short example, is it?

Mr Pouliot: Yes, very, but it's going to help me in the future because I'm to move from Manitouwadge.

The Chair: I'm not sure I want to help you in the future.

Mr Pouliot: I've got an expert here. You have a certain neighbourhood which is fairly mixed and the high-end housing isn't moving. If you go by the price — let me finish please — prices above $600,000 cannot be sustained and they're taking a hit presently, and yet vis-à-vis if I go the median, that price is moving and the prices are sustained for a myriad of reasons. It's not easy being an assessor. From a taxpayer's point of view, how much are each of those two properties worth?

Mr Sharen: You've asked two questions, you've made two points. Number one, yes, it's not easy being an assessor but the majority of them are reasonable and you can deal with them and negotiate ahead of time, which is another good point of Bill 106. Also, one of the points I made was that coming to an annualized assessment is going to overcome that type of problem because it reacts

to it quickly and within a time frame that you, Mr Hoy and Mr Kwinter etc can relate to and understand as laypeople. I've been over 25 years in the real estate business under the system of going four years back. I still have to go out and check every time to make sure whether truly I can prove an error has been made or confirm what the assessors have done. Many times they're absolutely correct, other times there is a mistake and usually we can negotiate it out.

The Chair: Thank you very much, Mr Sharen. We appreciate your presentation, particularly your expertise in this area. We appreciate that input.

SARNIA/LAMBTON
PROPERTY ASSOCIATION

The Chair: We now welcome Andrew Falby, Sarnia/Lambton Property Management Association. We thank you very much for taking the time to come in and make a presentation to the committee today.

Mr Andrew Falby: Good morning, all. Thank you for the opportunity to appear here this morning. I will speak very slowly, seeing that some of you cannot handle speed-reading.

My name is Andrew Falby and I am the president of the Sarnia/Lambton Property Management Association. I have also owned and operated various types of residential housing, from single-family homes to multiresidential complexes.

I would like to start by congratulating this government for being the first not only to address the inequities in the property tax mechanism, but to actually do something to correct the inherent flaws in the system. Unlike your predecessors over the last 10 years, who did absolutely nothing to rectify the overtaxation burdens other than to arbitrarily increase the debt to almost $100 billion in the name of social engineering, we feel confident that this government will deal with the problems, come to fair conclusions and look to the future for all of us to benefit.

As both landlords and taxpayers, we welcome Bill 106 as a progressive means to end the discrimination that exists in the tax disparities between classes of properties and style of tenure between all residents of Ontario.

Most parts of Bill 106, including actual value assessment, the repeal of the business occupancy tax, phase-ins to soften the blow to various sectors of society, tax deferrals for seniors and persons with disabilities, and the tax assessment appeal procedures, will mean more fairness and equity in the system and eventually more spending power in the economy for all.

Our only concern is that of changes being made to the Municipal Act, the new Regional Municipalities Act and other municipal legislation that will use the new province-wide assessment to determine the tax shifts between classes of property.

Groups such as the Fair Rental Policy Organization of Ontario, of which I am an active member, have brought some concerns forward which should be addressed in the legislation. FRPO has previously made two specific submissions for amending Bill 106 that I would like to reiterate:

"(1) That all municipalities be required to tax each residential accommodation at a single rate, that the multiplier be either eliminated or equalized regardless of the amount of units in a building. This would provide an immediate incentive for the construction of new rental housing in the province and end the discriminatory application of tenure.

"(2) Over a five- to 10-year period, municipalities will be required to phase out the existing differentials between residential classes so that traditional ownership housing, condominiums and apartments in buildings both small and large would all be taxed equally."

If municipalities are allowed to continue the practice of taxing residential properties solely on the basis of whether there are more than seven units in a building, they are in effect discriminating against the very tenants they claim to protect only because of their distinction of tenure.

Notwithstanding our own Charter of Rights and Freedoms with regard to fundamental human rights, part 2, article 1 of the International Covenant on Civil and Political Rights states:

"Each state party to the present covenant undertakes to respect and to ensure to all individuals within its territory and subject to its jurisdiction the rights recognized in the present covenant, without distinction of any kind, such as race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status."

Allowing either through legislation or by acquiescence distinctions based on where one lives only leads to more prejudice and NIMBYism, further dividing community lines.

1130

Another suggestion we have is in regard to the process in which the actual value of a rental building is determined. According to our local assessment office, all properties are to be reassessed to 1996 market values. The office does not take the vacancy rate into account when determining the market value assessment of the buildings. But the actual value of the building depends on the real gross income and expense, and vacancy should always be included in the expense of the equation. What the assessment office does say is it takes into account the actual selling price, but there is no guarantee that the sale price between the vendor and purchaser will reflect the vacancy rate.

Sarnia has one of the highest vacancy rates in Ontario at 12%, according to the last figures from CMHC. Would it not make more sense that the vacancy rate for each municipality be addressed when the assessments are made, especially when the act provides for three-year rolling averages which would help smooth out any fluctuations in property values?

Multiunit buildings, in particular the high-rises, make the best use of space, land patterns and public services such as police, fire and infrastructure over all types of developments. By providing housing in bulk, one only wonders why these particular buildings are taxed at levels often twice as high as units in smaller buildings. For example, Sarnia-Lambton multiplies the assessed value by 5.3 for single-family and buildings of six or less and 11.6 for the multiresidentials. Why? What response would you anticipate from the commercial sector if these same

differences applied to low- and high-density structures? After all, why should landlords and their tenants be penalized by paying more for using less services than a municipality collects taxes for in the first place?

Furthermore, understanding that the total income is taken into account in the determination for a proper assessment, will the social housing be assessed using the same standards of gross income versus expenses? With two sets of subsidies, rent-geared-to-income and bridge financing, it would only be fair if those buildings, despite government ownership, pay their fair share of the property tax burden as their counterparts do in the private sector.

We understand that the complexities and intricacies of fairness with respect to property taxes are at best difficult but we have great trust in this government to ease the transition and bring Ontario into the 21st century with dignity, pride and prosperity for everyone. Thank you for your time.

Mr Kwinter: Mr Falby, thank you very much for your presentation. You raise some interesting questions and I wish I had as much confidence as you do that Bill 106 is going to address and solve them. You talk about these inequities: Why should a property that has more than six units have double the factor when commercial and industrial don't have the same thing? I can tell you there are lots of inequities. You go to Windsor — and we had somebody here from Windsor — and take a look at how they assess the distillery. If you had a brewery next door or if you had a winemaker down the street, every one of them is assessed differently, with the distillery being assessed the most, and it's an aberration, for some reason or other. At one time they felt that it was a demon rum kind of thing and, "Let the guys pay," so they really whacked them. You have those things throughout the system where there are inequities.

I would really like to get some input from you as to how you think all of these things are going to be addressed in this bill when the intent of this really is to try to get a common denominator and reduce the number of classes and make this happen. I really see a problem because, from your comments, I think you're trying to fine-tune it even more. You're trying to take into account such things as vacancy factors, expenses. What happens if my expenses are more than my neighbour's? I shouldn't have to be paying as much. How do you address that?

Mr Falby: As far as the vacancy rate problem is concerned, I think I addressed the problem for each municipality to address the vacancy rate.

As far as your other questions on industrial and commercial, I really don't have an answer. You actually answered yourself in regard to how we fix the problem. It's your job to fix the problem. You admitted yourself that there are inequities, so fix the problem. We're talking about it. You've had opinions from everybody around you for two weeks on how to fix the problem. You've answered yourself; there are problems. I don't have the answer. You are the learned people. You are the elected representatives. You've admitted there are problems. There have been problems for 30 years and exacerbated by the last 10 — fix them.

Mr Kwinter: The point I'm trying to make is that we are not the experts. We're a committee looking to people like yourself to make suggestions or recommendations to us so that we can in turn reflect those recommendations and what our final deliberations are going to be.

Also, just to correct the record, if you had been here earlier when Mr McKeough was here, he was talking about 1977, the Blair commission that came in to address these problems. So notwithstanding your editorialization of what happened in the last 10 years, this was 20 years ago and similar problems were there and recognized. He recommended that the Blair commission report be implemented and the government of the day backed off because, as he said to me afterwards privately, they didn't have the guts to do it. He said, "I recommended it and they didn't have the guts to do it, and it's unfortunate."

This is a very complex problem, and I can tell you if it was simple, it would have been addressed long ago, but it's very difficult. You certainly have definite ideas on how to fix your particular area and the areas that you want to address and we're looking for input from you on that.

Mr Falby: I addressed the landlord-tenant/single-family home ownership point of view, and I think that's where my comments should lie. You should be addressing the industrial-commercial sector with people who are in that business, in that field.

Mr Pouliot: Mr Andrew Falby, welcome. I did appreciate the courtesy that you extended to me in particular when you prefaced your remarks by saying that you would go slow for those who could not handle fast reading and you looked directly at me. I think you're quite right, sir. I do better at slow reading because I do it in five languages. So welcome to the committee.

On your page 1 you state that we did absolutely nothing — that's total — to rectify the overtaxation burdens other than arbitrarily increase the debt to $100 billion. I take it you're talking about the provincial governments, not the federal ones.

Mr Falby: That's correct.

Mr Pouliot: Because if you were to look at the federal governments, I think it parallels. It's pretty well the same thing regardless of stripe. But you're quite right, your presentation does focus on the reason for which we are here and it's to address the assessment discrepancy and how to benefit the three sectors — residential, commercial and industrial — without dislocation. The committee has been going through the province seeking expertise and ideas and then the committee will go back before it issues a final report and recommendations and this will be reflected with the regulation that will give life to the bill; from people like yourself, a little bit here, a little bit there. There will be some discrepancies. In some cases there will be injustices. It's like playing pinball; you try to catch, but inevitably someone will go through and will not be adequately covered. But that's also subject to appeals, that's also subject to revision.

What we're hearing, and I would like your comments, is that Bill 106, if it were in isolation, only Bill 106, would be immensely easier to deal with because it is fairly streamlined. It talks about fair assessment, revised assessment, the price of one property or sets of properties

vis-à-vis the other in a certain vicinity at a given time. But inevitably you have to blend other things to it, because this is one of the many changes that we have to contemplate. While we don't have the flexibility here to incorporate all those changes, it's still omnipresent in our subconscious. We have to factor these in as we look at Bill 106, and I wonder if your presentation was fully aware of other bills that are coming down the pipe, because they have to be factored in. They're part of our daily lives as well.

1140

Mr Falby: What particular bills are you referring to?

Mr Pouliot: The transfer of services, responsibilities.

Mr Falby: You're talking about the downloading.

Mr Pouliot: Some will call it downloading, but let's say that there is a change indeed, yes.

Mr Falby: What would you like to know about the downloading — my personal feelings on the downloading?

Mr Pouliot: Yes, from what you know at present. None of us, I suppose, because there are negotiations going on, are fully aware of what services, to what extent and at what time. But what is your approach, your philosophy?

Mr Falby: I feel that the downloading is either sheer genius or just inevitable. I agree with Mr Rozema when he states that the best decisions are made at the lowest, local level. I believe that some municipalities will not address the problems in a fully open capacity because of voting power. I'm talking about tenants versus homeowners. I don't think the tenant population gets out and votes or speaks their mind the way they should, because they've been left out in the dark in as far as what goes on is concerned. The homeowners, who are more organized, perhaps more affluent, would be out there en masse trying to solicit the best position from their respective municipalities, and as such, there's almost like a smoke screen out there.

But in answer to your question, I think the downloading is an excellent idea and that it will invoke individual accountability and financial responsibility from each one of us when we peer into what actually happens out there.

Mr Tim Hudak (Niagara South): Thank you, Mr Falby, for your very reasonable, intelligent presentation. I appreciate your remarks too about the slow reading. The real reason is because they wanted this filibuster to go on for as long as possible. Sitting around with 30 or more opposition members, NDP and Liberal, for 24 hours straight for nine days, I think that —

Mr Pouliot: Cut your losses, too.

Mr Hudak: — the reason they wanted to do that was because they thought they were working. But it wasn't work, and now we're glad to be out on the road and working on committee and getting intelligent responses like your own, and like Mr Rozema's too, saying that in exchange for giving municipalities more responsibilities, let's give them the ability to make the tough decisions, which this bill does. I appreciate your comments in that regard.

In your case, in the multiresidential area, it will give the municipalities the ability to decide at what ratio of the residential they should charge. So then you can, at your level, and the tenants and such, pressure the council to get a more equitable distribution there in the Sarnia area or Chatham, or Niagara, where I'm from.

There's another provision in the bill I wanted to ask you about, and that was on the new multiresidentials, the provision in the bill that will allow municipalities to give a different rate for that, to encourage new multiresidential housing in municipalities. What do you think about that class being different from the current multiresidential?

Mr Falby: All that being said, I don't believe there really should be any difference in classes, be it multiresidential, single-family homes, buildings of less than six or new residential. But if it would spur construction, increase jobs and be generally good for the economy, there may be some provision for a different class, with the understanding that it was phased in over a five-year period so that builders such as myself or my colleagues could realize that they might have an edge for five years, but at the end of the five-year period there would be an equalization among all residential classes.

Mr Hudak: But you see it as creating an economic incentive, then, to build more affordable housing from the private sector as opposed to what Mr Rozema talked about, the old ways of spending millions of dollars on government spending?

Mr Falby: Definitely. Social housing? My favourite topic. I think the private sector should be the one that builds housing, not the government. The government should be there to make sure that all sectors of society, be it low-income people, seniors or persons with disabilities, have decent, affordable housing through legislation that's fair and equitable for all.

Mr Carroll: Thank you, Mr Falby. I had to comment on the speed-reading thing. Some of us did a speed-reading thing, some others did speed-listening, so we shared the responsibility.

Are you concerned that municipalities will not do the fair thing, given the option in Bill 106 to equalize the assessment between multiresidential and single residential? Are you concerned that they won't do what's right for their taxpayers? Is that why you would want to see it made mandatory?

Mr Falby: Yes. I certainly agree with what you said. I think that we all vote for whatever ideology, whatever party exists at any time at the municipal level, provincial level and the federal level. So if we have NDP persons at the provincial level, they're also at the municipal level and they will skew the legislation to factor in their ideologies at the municipal level and you do not have an even playing field.

Mr Carroll: But why would municipal politicians want to treat tenants unfairly vis-à-vis homeowners? Why would they want to do that?

Mr Falby: That's a good question. I can only answer that with a quotation from 1991, from Hansard, where the then finance minister stood up in the Legislature and said, "We, the NDP, cannot support entrenching private property rights in the constitution because ownership of land is a form of thievery." That was Floyd Laughren. So this particular ideology can be sitting on a council seat at the municipal level and if they think that way, then they would be skewing municipal legislation in favour of

tenants over homeowners, and vice versa. You can't have that. You can't have one side benefitting from the other. I don't know, did I get off topic there?

Mr Carroll: You got the quote in, though. I appreciate the quote.

The Chair: We thank you for your presentation — I think we'll move on from there — and for taking the time to present to the committee.

Mr Erie Woltz? I don't believe Mr Woltz has arrived. We may be able to work him in this afternoon if he does show up. With that, I don't believe there's any more business this morning. We will stand in recess until 1:40 this afternoon.

The committee recessed from 1148 to 1340.

KENT FEDERATION OF AGRICULTURE

The Chair: We now have the pleasure of welcoming the Kent Federation of Agriculture. Mr Cox, we have 20 minutes together for you to make a presentation.

Mr Ron Cox: Thank you, Chairman Chudleigh. First of all, I'd like to introduce my vice-president, Dave Derynck. He's a farmer from Tilbury East township here in Kent county. I am Ron Cox, and I'm a farmer in Tilbury East township as well.

The Kent Federation of Agriculture values this opportunity to address Bill 106 to the standing committee on finance and economic affairs. This is an important issue which will have a great impact on our membership.

The KFA is the largest general farm organization in Kent county. We are part of the Ontario Federation of Agriculture and represent over 2,100 local farmers here in Kent. These farmers produce over $250 million worth of agricultural products every year on their properties. This is a substantial source of wealth to both the local economy and the various levels of government through taxation. Those numbers are from the 1990 census. I expect to see much higher levels when the information comes back from the 1996 census.

The KFA is looking to the government for a fair, consistent and simple method of assessment for the rural community. The assessment should fairly represent the costs associated with the property as it is used for agricultural purposes, not people costs which may be tacked on. The assessment should be consistent across geographical areas, with variation due to the productive capacity of the land, not its speculative value due to possible future development.

The 25% of the residential tax rate on all farm land will fairly assess agricultural property for the services it consumes. This is more consistent with the actual cost associated with land for local services rather than a cash source. The problem with this is that it leaves the municipality in a cash deficit position, since it is losing 75% of the income which it used to derive from the property.

Kent county is up-to-date in terms of assessment. We are currently using 1988 values. With the elimination of the farm tax rebate and business tax, the municipalities will have a serious cash deficit. The rules are not clear in terms of how the funds will be accessed, and it seems unlikely that there is enough money in the funds to satisfy all the needs of the different municipalities. The province needs to set out firm guidelines on the mechanism to access the funds and a commitment to replace the income which is being lost.

This deficit needs to be addressed at the provincial level since there is limited potential for income in the rural setting. Because of this, the rules for assessment need to be set out clearly and concisely by the province for all areas in order to make the rules consistent across the province. The rules need to be set in regulation or legislation, not suggested as possibly vague guidelines subject to interpretation. If the rules are not clear, there will be significant time and money spent on litigation, which further loads an overburdened court system and wastes valuable resources which will be better spent elsewhere.

There are many terms and activities which need to be defined by the government in order to avoid this confusion and assist everyone in implementing Bill 106. The following definitions show how we interpret the bill and what should be done.

The first one is farm property. All farm property should fall into one major class. Farm land is used for primary production, storage of both farm produce and equipment, and support facilities: the farm shop, grain cleaning facilities etc. This would include the farm home since it is necessary in the operation of the business, and its value is lower than if it were on a separate lot due to the presence of the farm operation. Farm storage operations, such as bins, need to be taxed as part of the farm since they are necessary for storage of the crop and only used for short periods of time and specific uses.

Managed woodlands, road frontages, drainage schemes, pastures and wetlands should also be placed in this category, but they should not be taxed since the farmers are being stewards of the land without remuneration by maintaining these properties for the benefit of the general public.

Bill 106 speaks of two classes of farm property: residential/farm, and also farm lands and managed forests. Farm lands and forests is the only category eligible for the 25% tax rate, but there is no definition of what belongs in this category. The standards or examples must be put in regulation so that confusion is kept to a minimum and assessment is uniform across the province. The bill is unclear, and this could lead to problems.

Value-added on farm operations are another possible problem with Bill 106. They are not defined in the bill and the method of assessment is not laid out. Would they be assessed on a percentage basis? What class would they fit into? There is great potential in the countryside which needs clear and fair guidelines to assist in its development and growth. The economic benefits should not be lost due to poorly stated regulatory guidelines.

The next subject is farm property eligibility. Farm property should be eligible for the 25% of residential rate, provided that the property is used for agricultural purposes, the owners or tenants have a gross farm income of $7,000 and a valid farm business registration number as per the Farm Registration and Farm Organizations Funding Act of 1993. All property should be treated the same and pay the same relative tax as similar productive land independent of the relative location of an urban

influence. The taxes paid should be based on the value of the land as farm land, not its possible value as residential or commercial property. The level of assessment of the property should only change once there is a material change in the use of the property, eg, if a building permit is granted for development of the property for alternative uses. This would ensure that a farmer isn't forced to quit farming due to inequitable taxes being assessed on land if it was in a residential area.

The minister must specify rules or regulations such as this so that municipalities in need of cash do not find inequitable ways to increase their cash flow without providing something necessary for the assessment. If it is not firmly laid out, people will try to offset the reduction in revenues from the province in the easiest way possible, and this would possibly be the way used; for example, an assessment of $3,500 per acre for farm land versus $300,000 an acre as residential land in the Oakville-Mississauga area. Municipal bylaws should not be allowed to supersede provincial regulations in these matters. Thus municipalities wouldn't be able to impose unrealistic user fees on farm property to recover lost tax revenue due to tax reform.

Tax phase-ins: Rather than having a phase-in for taxes, we believe property taxes should be averaged over a number of years to reduce the variability in the level of tax due to fluctuation in property values, which change considerably due to changes in crop values, interest rates and the health of the general economy. A five-year average in values would even out many spikes and dips in the level of taxation.

Before reading the next paragraph, I would state that the above is our preference. If that is not acceptable, this would be the alternative: Bill 106 should mandate an eight-year phase-in for any tax increases to buffer the effects of the tax on the property. Taxes on land should only be used to fund the costs of land to the municipality. Farms do not need to be levied with increased costs such as road frontage levies. All charges to land should be clear and proper. The bill should leave no room for improper taxation.

1350

In the area of appeals, the system laid out in Bill 106 has a commissioner considering preliminary appeals. This limits the number of people involved, but one person can't know all the nuances of the many operations presently working. Thus, a small committee of government and rural people would have a better idea of whether the situation is viable as described and have a better idea about the validity of the appeal. This idea is recognized as peer review. The removal of the OMB is very serious and will result in a great loss of experience. The government must not eliminate something which works without an effective mechanism to replace it.

In closing, we trust that the parameters given in this document will be clear and concise to guide the local governments in the proper use of their new powers. Agriculture is an international enterprise, competitive in the international market. We cannot afford to be placed in a non-competitive position due to rulings at the local level.

This concludes my presentation.

The Chair: That leaves us with three minutes per caucus, and we'll start with the third party.

Mr Pouliot: Welcome, gentlemen. I'm certainly appreciative of your sensitivity to the need for municipalities to have to address the bottom line, the need in some cases to make up for the anticipated shortfall in revenue.

I sense that you're anxious that what you may gain on the farm, you may lose some, if not all, on the house. You see the house as being a natural part of the farm, one and the same. I don't wish to impute motive, it wouldn't be fair, but in terms of analogy, of parallel, since forestry is also eligible, would you appreciate a forest worker making the claim that their residence is also part of the forest? Would you disagree with a fisherman on the Great Lakes who stores his net in a shed in the back that the shed and the house in which the family lives are also a natural component of the job? Would you agree that a miner living in a small and remote community could claim the same opportunity? In their own fields, they validly will claim that they too also make, when all is said and done, an equal contribution to our vast and magnificent land. I'll leave you with this.

I appreciate what you're saying. Your situation is unique, and so is the unique situation of others. I too am trying to be consistent and reasonable. You spell out the sensitivity and do so by question mark, saying, "On the one hand we're worried that the municipality will just turn around and do what they feel is right because they have no other choices and become overly innovative, yet on the other hand" — you see, Mr Cox, I'm trying to say yes, but life is a compromise; we can only have it so many ways. If today you make the argument to block the housing unit, the residence, with the operation, tomorrow surely somebody else will claim with equal passion and the same justification. I would like to have some clarification of your comments on that.

Mr Dave Derynck: On a personal note, I'm having a farm re-evaluated for a mortgage, and because of the location of the house it is worth significantly less than it would be if it were on a lot on its own. I have an assessment from the township and I have an assessment from the bank, and there's a considerable difference in the relative value of the two. Am I going to be assessed at the township value or am I going to be assessed at the bank value?

Mr Pouliot: Good point. I don't have the situation, but we would have to factor in the criteria the assessor uses and also those of the bank. The criteria are different. You have to factor in collateral, past history, and it's not only the value but the market conditions etc and your down payment.

Mr Derynck: Right, but it's all going in the same time period. This assessment is within two months: one from the township on what my taxes are going to be on this property, and one from the bank for negotiating a mortgage on the property.

Mr Pouliot: You've got me there. It's beyond my field, but I appreciate what you're saying.

Mr Derynck: That is where the concern comes from. We can't possibly take it all the way, but we feel there is a need for recognition of it. It will not be worth as much as if it is a stand-alone lot.

Mr Carroll: Thank you very much for being here today. I have a couple of questions. You say at the bottom of page 1 of your brief, "The province needs to set out firm guidelines on the mechanism to access the funds and a commitment to replace the income which is being lost" from farm tax rebate and business occupancy tax elimination. Is there a possibility that some of that revenue being lost by those two taxes being disbanded can be found by more efficient ways to do local government?

Mr Cox: I believe that was the hope of restructuring. We followed that quite closely. Both Dave and I were part of the public focus group in the county. That remains to be seen, and I think that's the danger. There's a certain amount of uncertainty there. We're all looking towards January 1998 with optimistic expectation, but we've got three major threats there. We've got county restructuring; hopefully, that will work. We have the downloading, and county restructuring is supposed to be able to mitigate that situation. We also have reassessment occurring, and it is kind of hop-stepped over to 1998 from 1992 through to 1996 values.

It's the uncertainty. We're looking for some assurance that we're not going to be left in an unviable situation. That is the fear. We can hope and expect, but I think the shareholders in Bre-X had a lot of expectations as well. Maybe that isn't the best analogy, but —

Mr Carroll: My point is that if we can find some way to deliver government services more efficiently, rather than just replace one tax with another tax, you as agricultural people would agree that that should be the first thrust?

Mr Cox: If that can deliver, I think that's helpful.

Mr Carroll: You agree that the 25% assessment on farm buildings or farm land used for farm land is a fair system. You don't have any problem with that.

Mr Cox: That's what we've worked towards.

Mr Carroll: Do you not believe that local politicians will treat farmers fairly when it comes to assessments and their share of taxes? Do you not believe they will treat you fairly, that you need the protection of the province to make sure local politicians don't beat up on you? Do you really believe that?

Mr Cox: I do, because we have had examples to this point. In Essex county there was a situation where — there's a situation of desperation and some local officials may have jumped at the opportunity to do so severances, whatever. There's talk of user fees, that possibility. This uncertainty — I would like to see a provincial government that has a continued supervising role that will look at certain situations and say: "This isn't the norm. There are things going on here that traditionally, in percentages, haven't been the rule of the day."

Mr Carroll: I understand that. In Kent county, we always say: "We don't want Toronto to make all our decisions for us. Let us make our own decisions locally." Now I sense that you're saying to us that you don't think that politicians locally can make good decisions for agriculture and you need Toronto to make them. You're not saying that to us, are you?

1400

Mr Cox: I think we have to have balance. The province has said they're going to give more power to the local situation; they didn't say "complete power." That's where I look for the balance to come from, from the provincial government. Maybe they're not going to have their hand on the switch, but they're right there standing behind, making sure we don't have any radical changes that shouldn't be occurring.

Mr Carroll: So you trust the local politicians, but not totally. Is that what you're saying?

Mr Cox: After having viewed county restructuring, we do have doubts about certain people.

The Chair: That might be said of all politicians.

Mr Hoy: Thank you for your presentation today. It seems clear to me that you believe that municipalities will need some kind of bridge funding or mechanism to replace the moneys they will be losing from the farm property tax. In your township of Tilbury East, they will be short by in excess of 50% of their revenue. The question has been asked by the government side, do you think they can save 50% through efficiencies? In my conversations with municipalities across the riding, they don't believe they can save that kind of money.

Do you think this would have been a much better bill if the government had put in the parameters of how municipalities across Ontario would access and recoup and replace $171 million lost through the property tax?

Mr Cox: I think that would helpful. As you mentioned Tilbury East, I believe we're about $1 million short in terms of the downloading, plus the loss of the cash flow because we've gone down to a 25% area. We're in a very serious situation. Because we don't have a large industrial-commercial base, there isn't the opportunity to tap into other sources.

User fees have been mentioned as a possibility. It's difficult for people to come up with proper user fees that would fully address the shortfall. People have different feelings about them. At least they're open to the public for scrutiny, but there's a limit to what we can stand. If we're in such a poor situation, the situation demands that there has to be some assistance. There isn't any clear alternative other than access to the three funds the government has set up.

Mr Hoy: I want to touch on another subject within your brief. I believe I understand what you're talking about, value-added on farm operations. For the benefit of other committee members, I would like to have you expand on what you mean by value-added on farm operations and what your concern is for them under Bill 106. Could you expand on that a little?

Mr Cox: That is one area that is rapidly changing. Originally, we had some small enterprises that started up as value-added. Maybe somebody was growing soybeans and then got into processing, making soybean candy or developing tofu locally for a local market. That's rapidly changing. With biotechnology, a lot of things are being talked about now that were never imagined. The fact that a dairy cow could be a source of pharmaceuticals because of biotechnology is really right out there on the edge, but the technology is there. That has to be developed. There's that partnership between farmers and the industry.

It's rapidly changing. Exactly what we're talking about has to be defined, in terms of where does the farm issue and where does the business? How do we support those

industries? We're concerned about rural economic development. That was a major point that was stressed by OMAFRA Minister Noble Villeneuve. The opportunity for growth is recognized in agriculture, so I think it's critical that we get the details down so we know exactly what the rules are. We don't want to see limitations that would restrict or prevent the possible potential there.

This is something that needs consultation. There are a lot of interested players, whether it's OMAFRA or our parent affiliate, the Ontario Federation of Agriculture. Everybody should be concerned about the opportunity to bring economic growth to the province. This isn't just some narrow view. It's an engine of growth that has export market potential all around the world. I think that's being recognized by the Premier himself, because of trips he's been on. In that area, if we know the rules it will benefit everyone.

The Chair: Thank you very much. We appreciate the Kent County Federation of Agriculture having come in to make this presentation today. We appreciate your input.

Is the Essex Federation of Agriculture present?

ERIE WOLTZ
GERARD CHARETTE

The Chair: We'll ask Mr Woltz to make his presentation now. Welcome to the committee.

Mr Erie Woltz: Thank you, Mr Chairman. My name is Erie Woltz. They have it as "Ernie," but it's Erie. I'm a retired contractor from the city of Windsor. Next to me is Gerard Charette, a lawyer from Windsor. He is going to do the presentation.

First, I would like to say that I have been through two property reassessments, one in Windsor and one in Maidstone township, and I didn't find them too distasteful. Also, the mayor of Windsor says he's not opposed to reassessment. We had our reassessment done in 1992, so I don't think there will be too many problems with the city of Windsor.

Mr Gerard Charette: Good morning, ladies and gentlemen. It's perhaps helpful that I identify myself a bit to the committee by stating what my biases are. I think biases are an important part of getting business done, but they should be clearly stated so the listener can weigh what's being said.

I'm a resident of Anderdon township near Windsor, which is a rural area. I work in an urban area, the city of Windsor. I'm a tax lawyer and I practise business law as well. I am a supporter of the current government and I believe it is doing a good job at making tough decisions. I of course accept that there are those who have different opinions. I recognize that fully. I'm solely responsible for the contents of this submission.

First, if I may, some general comments. The bill has my general support because I believe it seeks to simplify tax legislation. As a tax lawyer, I have always taken the position that governments should do whatever they can to simplify our tax structure.

Complicated tax structures do the following: They make it difficult and costly to assess, calculate and handle tax payments, both for the government and the taxpayers. They also frequently amount to nothing more than make-work projects for tax lawyers and tax accountants, and I think we can use our resources better than that. Third, I think they interfere with the economic and social affairs of the residents of Ontario, who must devote inordinate amounts of time in ensuring tax compliance. As this government is fond of saying, there is only one taxpayer. I do agree.

We must seek to create tax systems that are transparent. Tax systems should give taxpayers a clear understanding of the cost of the services which they, the residents of Ontario, purchase from government. In that manner, the residents of Ontario can make clear determinations about the following: whether they value the services highly enough to purchase them; whether governments should be providing the services at all; and whether there are less expensive mechanisms by which those services can be delivered.

Now to the essentials of my submission. As you ladies and gentlemen know, Bill 106 is a wide-ranging statute. I have not had the opportunity of giving it my full analysis. I would therefore like to comment specifically on two areas of the bill: the elimination of the business occupancy tax, and some of the provisions affecting farm lands and conservation areas.

1410

The business occupancy tax: The business occupancy tax is difficult, both for businesses and for government, to manage. It is based on a set of business classifications which cover businesses that in some cases no longer exist. The classification system is clearly outdated and probably fails to capture new businesses and enterprises as they develop in our, quite frankly, vibrant economy, which creates many new methods by which people earn income.

The tax is also difficult to manage. It is easy for governments to miss taxpayers because many businesses frequently come and go. The tax is a tax upon business; it's not a tax upon property. Accordingly, in some cases the tax is never collected. Businesses go bankrupt, come and go, and never pay their taxes, or they just move on. Municipalities are therefore left without effective mechanisms by which they can enforce collection for taxes which are owing.

I think the new system is better because it establishes the tax as part of the municipal base. As you know, municipal taxes are a charge upon the land. This goes just about all the way in ensuring that taxes do get paid when they are owing. Therefore, municipalities will have a clearer idea that they are going to collect the taxes that are levied in their municipalities.

Similarly, land owners, those who will now be responsible for ensuring that this portion of the tax is paid, will be able, together with their tenants, to price the cost of the tax into their lease arrangements. On balance and on whole, this is a much simpler system which guarantees that we do not have a leakage in the tax system. Accordingly, I do support this aspect of the bill.

Taxes on farm lands and conservation areas: The existing system of farm tax rebates is outdated and the government has identified that fact. Again, the government is addressing the issue of simplicity with this change. I know of farmers, and I suppose we all do, who pay taxes to municipalities only to send in rebate applica-

tions to the province so that they can obtain a rebate. The result: Government takes money from residents and residents write to another level of government, only to send the money back. It's ludicrous, it's time-consuming, and it wastes so much effort. Farmers, as you know, are such busy people we can do a lot better in keeping them as productive farmers rather than tax filers and tax preparers and all of this that goes with it.

Again, issues of farm taxation can be dealt with on a more rational basis because we don't have money coming and going by way of taxes and rebates. We have one single tax bill and we can debate quite easily whether that's the right level of tax.

No one, not the government, not bureaucrats, nor any of the residents of Ontario, enjoys dealing with the payment, collection or assessment of taxes. However, all of us should agree that these disagreeable tasks should be simplified so that government can reduce the cost of administering the tax system, and so that residents will have more time to deal with the central challenge of being productive for themselves, their families and for the residents of Ontario.

Ladies and gentlemen, this is the essence of my commentary. I thank you for your patience in listening to me. I'll be pleased to answer any questions on any issues which you might have. That's it. Thank you.

The Chair: Thank you very much. We open with the government on about a two-minute round of questions.

Mr Hudak: Thank you, gentlemen, for your presentation; some very well-reasoned arguments in terms of the simple tax rate. People can understand, so they know where their taxes are and they can lobby their municipal politicians if they don't feel the tax level is high enough.

I like your points on the BOT as well, because why should an insurance company in a same value business as a shoe store next door pay more taxes just because it's insurance instead of shoes?

Mr Charette: It makes no sense.

Mr Hudak: Yes. The question I have for you follows from that, for the simplicity in trying to level the playing field across the commercial sector. The committee has heard two arguments in terms of a separate property tax class for the small commercial sector, where if a municipality felt that they had an interest in promoting a downtown core or some small businesses in the community, they could have a separate class for the small guy. What are your feelings on a different commercial class for different-sized businesses?

Mr Charette: I'm instinctively mistrustful of that because it tends to get tax lawyers like me thinking about how one fits into that shoe horn. I think there should be one basis for everybody. I'm not saying that you cannot have some type of incentive system. There has to be some flexibility on a local basis, but I just don't think that there is necessarily a good rationale for councils to get involved in these types of decisions where they're trying to value whose operation is more deserving of protection. If you're in business, you should pay your fair share of taxes. Keep it simple. Otherwise, I think the tax lawyers and accountants are going to eat a good part of the savings that people might get. That's my view, Mr Hudak.

Mr Kwinter: I was interested in your comment about the business occupancy tax and how it should be attached as a lien against the property so that the municipality can always collect it, regardless of whether the business leaves town or not.

When Willis Blair chaired a commission on tax reform back in 1977, one of his recommendations was that the business tax stay but it not be a lien on the property but be a special debt. The reason for that of course is that, as a landlord, you may have a business occupant who has an obligation to pay business occupancy tax, takes off in the middle of the night, and the municipality can collect it. If you have it as a lien, then what you have is a property owner being penalized because his tenant has skipped out or doesn't pay the tax.

We have a similar situation now, because notwithstanding that they say the business occupancy tax is going to be removed, it really isn't going to get blended into the reality tax. They're not going to forgo the income. They're just apportioning it differently. So you have that same problem. You have the landlord being subject to this potential penalty because of the indiscretions of his tenant. Do you have any comments on that?

Mr Charette: That's true, and that's part of the risk of the business. You can say that it's not fair, but there are many mechanisms that commercial lawyers use. They can use guarantees or letters of credit to ensure payments. They can do pre-payments. I'm sure that the marketplace will adjust in a fairly reasonable manner to make sure that landlords are not the ones who get left holding the bag.

I agree with you that is a risk, Mr Kwinter, but I think too many taxes are leaving the system without ever being collected and no one is responsible. I just think it's a good balance to make the landlords responsible. They own the property and they lose the rent if their tenant doesn't pay, so they have to be vigilant. I acknowledge the point you're making. I just think this is, on balance, a fair system, the one that's being proposed.

Mr Pouliot: Thank you, gentlemen. I must commend. No prejudice towards your honourable profession, but it's not too often that a committee hears that a lawyer would wish to make the system less complex and more expedient.

Mr Charette: I do not have many friends in the legal profession.

Mr Pouliot: I understand what you're saying, Mr Charette.

All morning, and I don't wish to draw you into this, but I must observe we've had in this exercise of switching responsibilities — downloading; it's there for everyone to see — that they, the council people, with question marks, are the most relevant form of politics, others will say, so they know what's going on. Those local treasurers can sure balance the books, so they should be able to pass, in some cases, as much as 30% or 40% in efficiencies.

Don't ask me to do it because in the past two years, not necessarily your administration, the provincial government is spending more money. Revenues are up big time, so it's good, but they're spending more money in this fiscal year than they did last year — go and ask Mr

Eves — and the year before, more than they did the previous year, so it's not always easy, but it's much easier for you to save, you see.

All of this is coming down big time. You have the BOT. You have the example of a good spin, of the insurance company and the little shoe store. Try to twist those things around over the years, Mr Hudak; it will serve you well.

Residents have listened to the Premier, who said that by the year 2000 the municipal councillors should be able to pass a 10% decrease in property taxation. The chambers of commerce are expecting, because of the BOT, that the small and medium-sized businesses will get a tax decrease. The big industrial people are getting a tax decrease. The government says, "We won't cut education. We won't cut health." One simple question when all is said and done: Who the heck is going to pay for all this? Where is the money going to come from?

1420

There's no free lunch here. There's no invitation from Brooke Shields inviting you for dinner, sir. When your phone is ringing, it's not her calling. Get me? Who's going to pay for all this? These are your friends. These are the people you support. You're just as political as I am.

The Chair: Thank you, Mr Pouliot. I think I heard a question there.

Mr Charette: Mr Pouliot, your question is so broad, I cannot even begin to — I apologize. I don't apologize, really, I should say, but —

Mr Pouliot: Where's the money going to come from?

Mr Charette: We're going to find it because we're good, productive people and it's going to be fair. I trust the local councils that will make the tough decisions. Frankly, I want my tax collectors up close to me where I have a chance of influencing their decision.

The Chair: Thank you very much. We appreciate your taking the time to come in and make a presentation to the committee today. We very much appreciate those kinds of inputs.

MICHAEL CHILDS

The Chair: We now welcome Michael Childs from Oak's Inn. Welcome to the standing committee on finance and economic affairs.

Mr Michael Childs: I'd like to thank the Chair and the committee for hearing me today. I'll give you a little background on who and what I am.

Presently, my family owns an 80-room motel in Wallaceburg. I'm general manager there. We employ over 50 employees and we're very active in the community. Our facility has 80 rooms, a full dining room, lounge and banquet facilities.

In the 1990s, we found that to carry on business, you have to work on the expenditure side because the revenue increases that would normally be there in the 1980s were not to be found in the 1990s. So we've had to work harder for less. We're looking at the future to try to bring profit to the investment and so to the industry; the service industry, the hospitality industry can strive forward and be successful. A little bit about what we're about now to carry on with reference to Bill 106.

I see this as a fair and equitable system that should be supported. The tax assessment based over three years I believe should be a fair way, no matter what the class of taxation is. It will help avoid the highs and lows that occur today. In business we would like to see expenses in a predictable manner so we can plan for the future and make sure our business is long-term and stays. Our service industry's known for the comers and goers. We'd like to see that be a little more permanent, and having predictable expenses will help that.

At the same point, I do have some concerns with the bill. With reference to ensuring that changes are fair, I think that makes note of the new classes that could be created. I feel these should be created through legislation as opposed to the municipalities approaching the Ministry of Finance of that day and possibly undoing the good that the bill is meant to encompass; seeing the new classes be brought through a normal legislative process where there would be public hearings and just to make sure that fairness is seen across the board.

As well, another concern is the new variable tax rate. I'm concerned that it needs to be fair for the commercial-industrial sectors and needs to make sure that the municipal politicians sometimes see the voting residents and not always see the non-voting business people. We need to make sure that the provincial government is a leader in educating the municipalities and making sure if that's important to them, they take a look at the business. Business is a very important sector to the community and it's also important to the business, the proper tax on them in locating, maintaining and remaining in the communities. There's a concern to make sure the rate between the business and residential doesn't widen, and if at all possible, narrows in the way of the new tax rate.

Roughly, those are my concerns as I see the bill. I'll be happy to answer any questions. I'm not a property tax expert. This is from what I've been able to get from my accountant and the assessment office and everything and how it'll impact my business.

The Chair: Thank you very much. That leaves us about five minutes per caucus for questions. We start with the official opposition.

Mr Kwinter: The Canadian Federation of Independent Business indicated that one of the major problems is not necessarily the municipal tax rate but the provincial tax rates. They had a study and someone duplicated it today, I guess the representative from Windsor, which showed that Ontario is probably — of the ones they have illustrated — the highest property and wealth taxation jurisdiction in the world.

I notice in the comments that we've been hearing, there's a lot of attention being given to the municipalities and what they're doing. You've just raised the question that several have raised about municipalities saying, "We're going to tax the non-voters because we have to account to the voters." Have you and your industry and your association looked at these areas and have you identified those provincial tax regulations that are impacting negatively on your industry?

Mr Childs: I'm not sure what the associations are doing, to be quite honest with you, as far as that is concerned. My concern with the municipality level is that

you've got a changing municipal government and there are concerns that the voting residents might persuade the municipal government of that day to bring something that would pull an unfairness in the tax structure. That is my concern.

Mr Hoy: Shortly after my election in 1995, I met with all of the municipalities in Essex and Kent that come under my riding. At that time they told me, "We haven't had a tax increase in three years." Some hadn't had a tax increase in five years. Some hadn't had tax increases in even longer periods of time. Just by chance I happened to go to a restaurant at noonhour and some people from Essex who are in municipal government were there. They are saying to me now that for the life of them they don't know where to trim any more. I think they're between a rock and a hard place right now.

They're also discussing amalgamations of counties and the municipal governments. As someone said here earlier this morning, the government has all these balls in the air and they haven't come down and nobody knows where they've landed yet. They're struggling with how to deal with these pieces of legislation that are coming in and not complete, such as Bill 106. It's not complete on the minds of many people, yourself included. You'd like to see some changes for the positive. They really don't know where they're going to find more efficiencies.

Not only that, but given that the government's agenda is so rapid, yet incomplete, they don't know who they want to amalgamate with. It's like going to the old school dances that I went to in high school; everybody was walking around the outside, but nobody knew who to dance with. They don't know who they want to dance with in the future, not given the complete story.

I appreciate your being here and giving your input from the business perspective of a person who owns an inn. We need to have the government put its full agenda in place before the people of Ontario and not in kind of a patchwork. Thank you very much.

Mr Pouliot: Mr Childs, I wish you well in your endeavour in Wallaceburg. You're creating employment. Would you have any idea how the business occupancy tax translates in terms of a cost per room per year?

1430

Mr Childs: To be honest with you, I've never done that calculation. I could probably do that and get it for you, but off the top of my head I couldn't give you the actual dollars.

Mr Pouliot: But it's substantial.

Mr Childs: Oh, definitely.

Mr Pouliot: There are winners and losers in this exchange. Congratulations. Today the sun rose for you, because, not unlike the bigger industrial players, you come out on the winning side as hotel/motel operators. Large apartment owners also will do fairly well.

There's a sentiment that the losers, those on the other side of the ledger who compensate, will be the small business, smaller industrial and perhaps the residents. You're right to be concerned about an opportunity for people — because they must get the money from somewhere to pay for services; it's quite simple — that while you gain by a reduction or elimination of the business occupancy tax, people will petition other levels of government and they will say, "Give us the opportunity within the system to establish or to look at another class of taxes."

So while you might see that the new system is more fair, in the final analysis, "Gotcha." So you'll sleep better; you won't eat any better. You would like it because a tax is a tax and a dollar is a dollar, whatever title, but if it's in the legislation, only a change of heart from the government in place or a change of heart from a new government would mean that they would have to open the act. It can be changed at any time, but if you do it by regulation you don't have to risk opening the act. In the political context, once you open the act, it's a can of worms and it becomes a bag of snakes and the opposition go crazy and they filibuster etc. Preferably, it's in the legislation. The government will not wish to have the name of every child in the province become part of Hansard. That would be a waste of time. The streets, that's okay.

I understand your fear. I'm not a prophet. Municipal governments are very good. The fact is they need the money. And you're phased in; they won't have time to phase in. If they need the money, the friendly banker will make sure that they do the phasing in tout de suite, and the people who say, "I've been paying too much, I want justice to be done now, not over eight years, and by the way, where's the interest?" they'll want it now, and the people who haven't been paying enough will say, "Eight years is not enough." So your local council — I hope you're not running for office — has to reconcile all that.

I agree with you, and I wish you well. You have the obligation to be very vigilant, because you'll celebrate one day, and the next day you'll experience the very opposite of celebration, that is despair, because it's like tales of Houdini: At one time it was there, and it passed and you missed it. Good luck.

Mr Childs: I think the key thing there with the taxes is the fair thing. Trying to be equitable, yes, there are going to be some ups and downs and some adjusting, but in this province I think the good operators will stay good, stay for a long time and carry on. What they need is an equitable tax so that we know where we're going with it, instead of having these ups and downs that the current tax legislation has.

Mr Pouliot: You are very positive.

Mr Carroll: Mr Childs, first of all I have to comment on Mr Hoy's dance analogy. I went to the same kind of dances. The one thing I found out is that at some point in time, you did have to make a decision and ask somebody to dance or you went home alone. Decision time is upon us.

I want to compliment you on a couple of points: number one, being a small businessman coming out and taking the time to come out and be heard, and being a young person taking the time to come out and be heard. On both counts, that's important that you take your place with government and tell us what you feel, so I compliment you on those things.

You live in and do business in a community that has done a marvellous job in the last few years of reducing expenditures at the local government, dramatic changes in Wallaceburg in the reduction of expenditures. Have

you seen, as a businessman and as a resident there, a profound reduction in the level of service as a result of those efficiencies that have been found in Wallaceburg?

Mr Childs: With reference to my business, not directly; with reference to some residential services, yes.

Mr Carroll: Acceptable reductions?

Mr Childs: Yes. Once again, it comes down to starting to pay for the services that you require, and I support the government's moves and I think they're positive ones. Then you see where the private sector sometimes picks up the difference on different programs, and it gets sorted out and done and there's not a major lapse in services.

Mr Carroll: As a small businessman, taxes are a big component of your overall costs. If the government can come up with a tax system that is fair and that overall allows a reduction in taxes, be they income taxes, property taxes, whatever, does that put you, as a businessman, at a better opportunity to compete, get more business, hire more people, create more jobs and in actual fact make a bigger contribution to your community?

Mr Childs: Definitely. There are always things we could do to create more opportunities at our facility, to add on and increase the volume of traffic through, as well as promote different areas of the motel and expansions.

Mr Carroll: One other quick thing: You're one of several people who have expressed some concerns with local politicians making good decisions, and some concern about, "Maybe we need more protection in the act so that Toronto has more input in local politicians." Are you really concerned about giving more responsibility to the local politicians in Kent county to make good decisions on behalf of you in Wallaceburg? Is that a valid concern on your part, that you don't want them to have more responsibility and more opportunity to make decisions?

Mr Childs: I don't want to miss the opportunity for input. I want to make sure that the council of the day — once again, I have no problem with the current council, but I have current concerns. I'm a young businessman; I plan to be in business for a while. I don't want to create a nightmare today that's going to impact me 15 years from now. It's hard to predict the future, and it is nice to get some consistency so we can plan a track to a positive future and not have too many bumps along the way. We've seen enough bumps in the 1980s and 1990s in our industry. We don't need to create too many more.

Mr Rollins: Thanks for your presentation. It is very encouraging to hear some young business people come out.

In Bill 106, the range of the categories that we're establishing there, there may be some variations at the upper and lower level as far as the range, each different sector, and I think that's one of the reasons that we feel that maybe the local municipality can make those adjustments. I think there needs to be a top and there probably needs to be a bottom, and as long as you play in that, it gives some accountability.

And the same thing with our local assessment; if we're having the assessment done locally, through your own local municipality, you're going to be able to be in touch with those people. Now, whether they physically do it or people are hired to get it done, I think that it gives you some protection if we put some guidelines in from Toronto — but just the guidelines, not to draw the whole dotted line and the whole thing. Do you not agree that we need some flexibility?

Mr Childs: I agree. I don't know the exact form and how to do it. My concern is that it's a fair, equitable way, that somewhere down the road we don't have a major surprise in our industry. If that will be accomplished the way it's set up, that's fine, but I have concerns that we have to make sure that it will entail a fair and equitable way.

Once again, I'm not afraid to do business. If my taxes have to sneak up a little bit, I don't like that, but if that's what's going to happen and the guy next to me's got the same deal, then we'll deal with it, but I want to make sure I'm playing on a level playing field.

The Chair: Thank you very much, Mr Childs, for coming in. As has been expressed, it's a pleasure to see people of your vintage taking their place at the table. Thank you very much.

Mr Childs: Thank you for the time.

Interjection.

The Chair: Yes. We do have one person of your vintage on this committee: Mr Hudak.

Mr Manchester? We don't believe Mr Manchester has arrived yet. Mr Vander Pol? I don't see Mr Vander Pol here. He would be early.

1440

ARNOLD BROEDERS

The Chair: I believe Mr Broeders is here. Mr Broeders, would you be prepared to go a little early?

Mr Arnold Broeders: Yes.

The Chair: Thank you very much. We welcome you to the standing committee on finance and economic affairs and look forward to your presentation.

Mr Broeders: First, a brief introduction. I've been teaching for approximately 30 years. About 15 years ago, I also got into business, so I guess I see both the tax takers and the taxpayers in this deal. I just want to let you in on some of the experiences that I have had with the tax system. I presently run four video stores, and my experience is based on this. I became involved in the question of fairness in our tax system as a result of operating these four stores in Kent county.

In November 1989, I opened the fourth location for the Video Terminal on the corner of Richmond and Lacroix, one of the former car dealers in the city. The property tax had not yet been determined, but I felt it would be in line with our other locations.

When the new tax demands came out in the spring of 1990, I was shocked. The effect of reassessment on my home amounted to an increase of "only" 24%; the tax in a strip mall on Queen Street went up 80%; my location in Thames-Lea mall went up 135%; and in my new location, over 200% in one year. That new location required a property tax, for a store roughly the size of this room, of $1,100 a month. My rent was $2,750.

I yelled, I protested, I was interviewed by the press, the CBC, local TV etc. But everyone in the tax system explained to me that I was paying my fair share.

This is how the assessment people explained my assessment: Across the street the previous year, Mac's milk had just bought property and put up a new mini-mall for over a million dollars. Therefore, the renovated mall I occupied was worth more. The first tenant, a Pizza Delight, had the landlord do $360,000 worth of improvements and paid $28 a foot in rent. The tax was based on the improved lease. My lease, for a less prominent location at the back of the mall, cost $10 a foot, but I was paying tax at the same rate.

It is unfair to assess each store location within a plaza at the same rate when they do not share the same advantage of location or value. I appealed my tax, and it was eventually reduced by 10%. Pizza Delight was forced to close. The deli next door was forced to close. I was told by a local politician, "If you can't afford the tax, get out of business," so I moved out. The owner of that plaza eventually lost the plaza.

Why do local businesses have to pay speculation tax when out-of-town businesses bid up the value of property? Mac's eventually closed down most of their stores here in Chatham, but not before making a lot of small business people here in Chatham suffer by their speculative building frenzy.

The question now is, what is a fair tax? A business must pay for local services such as police, fire, road repair — they have to make sure they can get to the store, so the snow is cleared — and administration. If I have a business in three different locations renting videos, are those costs not the same in different parts of Chatham? If you want to tax income, then do it through a different tax system.

To add insult to all of this, there's a business tax which is assessed at 30% of the property or speculation tax. Business tax could be based on licensing fees, the number of employees, gross sales or profitability, but should not be based on the speculation tax.

The second experience I had with the tax system dealt with appeals. At one of my store locations, I was fortunate to be able to buy out the neighbouring store. I had a video store; that was a variety store. At the end of the year, about five years ago, we put a portal through the wall, just like opening up this door here. The effect of that was that if I was paying $6,000 in tax on this side and $6,000 tax on the other side, you open the door and the tax goes down to $9,000, a saving of $3,000, even though it is still basically my business.

I called the tax assessors in and they said, "We'll take care of that next year." While I waited for a full year, I overpaid $3,000 in tax. That next year my tax was reduced. It was like that for three years, so I saved $3,000 for those three years.

In November of that year, I told the assessors that my lease was up the following August and therefore the ownership or lease would then go back to the owner of the mall. My tax assessment was changed immediately. I was not notified, because the new tax assessment for that vacant store, even though the hole was still there, was sent to the landlord, who lives in California. All of a sudden I get this increased bill: "Pay up the $3,000." I'm still using it as a storeroom, but the tax assessor says, "No, it's a vacant store, so pay up."

Towards the end of that year my landlord saw that he could not rent it out to anyone else and he gave me a better deal and I rented again. I got the contractors out, enlarged the opening, got the assessor in, in November and said: "Change my assessment again. You've made me overpay this year." The guy refused. He didn't submit it. I called and called. Finally, in November of last year, the assessment came through that, yes, I had been overpaying tax, only for the one year, not for the two. I still don't have my money, because my tax is paid to the landlord, who lives in California, and the city is now going to rebate my $3,300, but it's on his books. I paid it and he thinks it's his. So thanks to these assessors, I overpaid $10,000.

When you talk about local guys you can call, there's only one way I want to give the guy a call and that was with a big assessor of my own, but unfortunately these guys are untouchable. He should have been sued, he should have been shot, he should have been fired. I'm upset and out $10,000. I just hope this new system that you have will be much fairer and will have some local input and a little bit of immediacy, because we small business people have to react quickly to changes in the marketplace. That's the only way we can survive against the big guys.

That's my experience, and if you have any questions I'll be willing to answer them.

The Chair: That leaves about four minutes per caucus. We could start with the NDP.

Mr Pouliot: Thank you very kindly. Yours is a very sad, desperate story, yet you have the fortitude and the solace to go to school and to form, to cast the minds of the future. I would hope, with respect, that you are not telling those young students to shoot, that you will instil in them the kind of self-discipline to stop from doing that. In any event, should you wish to do that — you see, they talk of another kind of revolution. Make sure you have the guns, teacher.

Mr Broeders: They're being taken away by another bill.

Mr Pouliot: Yes. This is a deterrent.

Do you feel that if you shifted the responsibility of assessing to the local level, in lieu of the present system, you would necessarily have quite a difference, because they would be local?

Mr Broeders: I just felt that there should be someone to appeal to, like I said, the local politician who came in. I don't want to give too much power to local politicians, because they all get grants to spend money.

Mr Pouliot: Thank you very much. All of us are local politicians. Mr Carroll is saying — and I recognize the tone; I've been doing this for 12 years straight — it's the local politician. But he knows everybody in the room. All politics being local — but he works at Queen's Park, so I guess we'll take that with a grain of salt.

The appeal will have to be simplified because they expect — and I'm not the one saying this; independent people without prejudice are saying 900,000 appeals, that it will be chaos. There are 3.8 million units to be reassessed. It's the highest, deepest concentration of assessments ever undertaken in North America over a short period of time, and it's going to be done partly by

call boys, people who will be trained in one or two days. They have no concept and they'll do it for $12 an hour.

The contract's just out: $62 million of our money to do this charade here. It's going to be chaos. The entrepreneur, the contractor, will be getting $30 per unit, and he will fork over $12 to some student who will have been trained, and they'll make H&R Block, when they file their income tax, look great.

1450

I warn you, if you want to talk about appeals, there will be one heck of a lot of appeals. They say there's light at the end of the tunnel; it's a freight train at the end of the tunnel. I'll be around to say we told you so, but I want to wish you well. Maybe I'm wrong. I appreciate your courage. Your courage is great.

Mr Spina: Thank you, Mr Broeders, for joining us today and making some of your comments. You might want to talk to our friends over there with the relatives in Ottawa about Bill C-68. I know that's in the back of your mind.

One of the things you were concerned about was how the changes would take place with regard to the rates that might be applied to businesses. Yours is a very real case. We fully empathize with the objective that the person who does the assessment should be somebody you will have the opportunity to address, and they should not be able to go about with impunity. They ought to be accountable.

Just as in a real estate transaction where you might get two separate appraisers to evaluate a property, I think it's only fair that you have the opportunity to get two assessors, which is essentially the same thing — all they do is use slightly different criteria — to look at a property. By simplifying the process, as we have proposed in this bill, your total appeal should be done in 90 days. I think you'll agree that's a considerable cost saving.

We talked about some of the ratios of categories for business. I wonder if you could give me your opinion or if you're familiar with that aspect of the regulations that have been tabled.

Mr Broeders: No.

Mr Spina: What's happening is that in setting tax rates, the municipalities will be required to follow provincially set tax ratio ranges for the various categories. These ratios, if they are above the provincially set ratios, because of where they are currently taxed, are going to have to downgrade to the provincially set rate, which is really a safeguard for the property owner to ensure that they aren't being jammed unnecessarily with skyrocketing taxes so that the sky will not fall in, as my honourable colleague will say over here.

I just wanted to assure you that these are some of the policies that we are trying to implement as part of the overall implementation of the bill. Does that make you a little more comfortable, as a business owner?

Mr Broeders: Yes.

The Vice-Chair: About a minute left. I have Mr Carroll and Ms Bassett.

Mr Carroll: A quick comment. The 900,000 appeals that my friend from the third party commented on, I don't know where he got that number from, but it's just slightly more than the number of amendments they tried to put through on Bill 103.

We're moving to a system where basically, very simply, properties of equal value will pay equal tax. Can anything be fairer than that?

Mr Broeders: No.

The Vice-Chair: That's all the time. To the official opposition.

Mr Kwinter: Thank you very much. I really do empathize and sympathize with your situation. You're really representative of a class of businessmen who I think are going to be adversely affected by this bill.

I'll give you an example: A bank tower, regardless of whether it's in downtown London or downtown Toronto, its business occupancy tax was calculated at 75% of its realty tax. It is going to go to 42%. You, in your category, have been assessed at about 30%. You're going to go to 42%.

What is going to happen — and you've got two problems. Your major problem is with your realty tax, because the assessment you talked about initially was the discrepancies in these four different locations, and how you had the same use of the property and yet your realty taxes were so disproportionate because of Mac's milk building its mall across the street and all that other stuff.

What is going to happen is that this business occupancy tax is going to be removed but it's not going to disappear. It's going to be blended in with your realty tax. You are really in a position right now where I can predict that your situation is going to worsen, it's not going to better, because you're now paying 30% on your business occupancy tax; it's going to go to 42% and it's not going to address your particular problem. It was suggested that maybe you should go after the assessors because they're not dealing with you equitably. You may have a course for that if you take it to an appeal or something like that.

Are you aware that's what's happening with the business occupancy tax?

Mr Broeders: It's the same problem I've had before. If one type of tax goes up and the assessment stays the same, there will be all sorts of businesses closing. Everyone always says there's only one taxpayer. You can get me at home; you can get me in the business. If the tax is too high, I'll close the doors and then we'll have more screaming people and more unemployed politicians and a new party to try and do the best that way. But so far, I want something that is fair and is applied equally to everyone. That's what I'm hoping for.

The Vice-Chair: That concludes our time. Thank you very much, Mr Broeders, for your presentation today.

Mr Broeders: Thank you for allowing me to present this.

The Vice-Chair: Glad to have you here.

HONEY ELECTRIC

The Vice-Chair: I believe Mr Vander Pol has not yet arrived, so we're going to move to Mr MacDonald from Honey Electric. Good afternoon, Mr MacDonald. Welcome to the standing committee on finance and economic affairs.

Mr Reg MacDonald: I'm glad to be here, I think. Am I the last speaker of the day?

The Vice-Chair: It depends on whether a couple who missed maybe are running a little late.

Mr MacDonald: I was just going to check. You probably all have bingo butt by now and I could be brief, cut it really short.

The Vice-Chair: We do have 20 minutes together. Any time you choose to leave can be used for questions from the different caucuses. Please proceed.

Mr MacDonald: First of all, I'd like to open up with a couple of comments. The property tax system is long overdue for upgrading. I think we all agree on that. This government should be praised for its courage to take on such a monumental task.

This said, the property tax system must be changed, but in a fair and gradual way. There are too many inequities and problems with the current system. Ontario is the top property tax generator in all of Canada and this is a deterrent to any existing business or prospective businesses. We need guarantees from this government that the municipalities are not going to increase our taxes, that this government will protect businesses from unjust taxation.

My first issue: Canada, and especially Ontario, have some of the highest taxes in the world. The rate of increase for property taxes has risen over 20% in the last six years alone. This is one of the major deterrents to economic and job growth. The business community, especially small business, will be affected the most with higher assessments and higher tax rates, to make up for the loss expected when school taxes are taken over by the province. The business community in most cases pays double taxes compared to the residential ratepayer, and usually receives less service.

Small businesses, by sheer numbers, have greater competition in a sector than do their large multinational counterparts. With less income, the higher taxes have a greater impact on small firms. Because property taxes are deductible from business income does not mean we can handle more taxes and just pass the burden on to the consumers. We are all consumers; there is only one taxpayer. The small business sector is price-sensitive and higher product costs will force consumers to purchase their goods elsewhere. Worse yet, business owners will lay off workers, try to reduce wages and cut back on expansion or capital purchases to offset higher assessments.

Who says local governments are going to lower taxes? Political pressures will favour the residential sector and any changes in class will result in businesses picking up the difference, especially with the repeal of the business occupancy tax.

My suggestion: It would be fair if residential and business property taxes were the same, but this is probably impossible. If a fair rate was fixed by the province at a percentage of residential property assessment and the existing taxes allowed to rise and fall to a median level over a specified period of time, this would allow everyone to adjust with a minimum amount of discomfort — municipal accountability assumed there.

1500

My next issue, allowing municipalities to design classes of property designation beyond the current list, is asking for more areas to tax. When the business occupancy tax is repealed, the need of municipalities to replace this income from business will necessitate increasing the property taxes. If the current list of property classes are maintained and identified in law, the municipalities will not be able to create a number of new classes to broaden their base.

There would be even more discrepancies and needless arguments about the designation of certain types of properties that did not quite meet the municipal description of a class, and the taxpayer having to pay for a higher rate than expected. The arbitration system would be overstressed to meet the demand of class readjustments. Simplifying the tax system would be one of our primary goals.

Another suggestion: If the business occupancy tax is repealed, it should be done gradually and over a specified period of time. The loss in tax revenue to municipalities brought about by these proposed changes should be borne by all taxpayers, not just an increase in business taxes. The number of property classifications should be reduced, or at least limited to the existing list.

The next issue: The property tax system should never have been the vehicle of education taxes. If the government is going to tax businesses to recover education taxes, the businesses should have a greater say in how the education taxes are to be spent. We all benefit from a skilled, educated workforce, but at what cost? A balance between what is required to train and educate our citizens to what could be a job-killing tax burden will be difficult. My suggestion is that education taxes be phased out of property taxes for both residences and businesses.

In summary, reform of the property tax system is needed, of course. Businesses should not be the sole focus of tax increases. Fairness and simplicity should apply to all tax changes. Phase in changes over a reasonable time frame. Governments should be made accountable for their costs and administration of taxes. The provincial government should establish a fixed percentage of property tax rates and legislate property tax classifications, instead of allowing local governments to create new classifications.

In conclusion, property taxes, once perceived as a necessary cost of doing business for progress and development, have become the cancer in our pocketbooks. The desire of the public to see prudent stewardship by government has become the fear of runaway bureaucracies fed by the opiate of taxation. This is an opportunity to correct years of unjust and complicated property tax legislation. The hope is that fairness to all and simplicity will rule the day.

A property tax based on current market value is the best approach at this time, provided accountability at all levels is ensured. We want guarantees. Governments have to put dollars back into the pockets of taxpayers. Our collective disposable incomes have not increased since 1974. It's time to give us a break. Half of my income each day goes to pay for all the levels of government, and I can't afford it any more.

The Vice-Chair: That leaves us with a significant amount of time for questions, about five and a half minutes or so per caucus, beginning with the government side.

Ms Bassett: Thank you very much, Mr MacDonald, for your presentation. You raise several interesting points. That's what we're here for, to hear people's different ideas.

One of the things I'd like to talk about is the business occupancy tax. You assume, it seems, that the elimination of the business occupancy tax that so many people have requested in the business field will mean that taxes are going to go up.

We believe, first of all, allowing the municipalities the power to redistribute or collect the lost revenues the way they want, spreading the tax over a wider base, will be an equitable and fairer way of doing it. Although we haven't said how it's to be done, municipalities probably will redistribute it over the business base. Also, a lot of the BOT that we don't collect, we lose — $200 million a year in lost revenues. That money will be coming in.

I don't see any need, and I wonder why you think we have to raise taxes. It's just restructuring, in my view. Right now it is an unfair tax dating from 1904, and we're saying people who don't deserve to get it or who have no reason for paying more than someone else will now probably have a stable way of going about paying it.

Mr MacDonald: Excuse me for being so naïve, but what happens is if there's ever any money that has to come out of the community, it seems they always go to business first, and I can't afford it any more. You have to understand that most businesses — I don't know what the percentage is, but a large percentage of businesses — are small businesses, mom-and-pop operations, one, two or three employees. When you increase any kind of tax to us, we have to immediately pass that on to our consumers: "There you go." Like I said, I'm only one person. Each individual is the taxpayer.

Ms Bassett: Can I just add that municipalities will have the ability to establish a two-tier system for the BOT, so they will be able to have —

Mr MacDonald: But at what rate? If the residential rate is at one amount and they tax business at an increased amount and we're getting the same services, I think we've been hard done by. Why is it always that business has to pay for this? If I had additional income in my business because I didn't have to pay as many taxes, I'm sure I could find a lot of interesting things to do with it, like expand my business, hire more people etc. This is what I'm talking about.

If you take any kind of tax away from municipalities, they're going to have to find a way to replace that, unless you shrink the size of those governments — and I guess we're trying to do that too.

Mr Spina: Thank you, Mr MacDonald, for your input. I think you've kept in mind at least the underlying thrust of the objective that we are trying to achieve. The province really doesn't benefit from any increase or drop in taxation here. It's really intended and designed for the community itself and for the municipal government to be able to have a lower administration of tax collection, a fairer system of tax collection and at the same time keep in mind that it is small business that's creating jobs.

To that extent — and I appreciate your concern about the community maybe having too much control over setting the number of categories. Did I understand your concern in that area?

Mr MacDonald: Yes. I can see them subdividing into all kinds of little categories, and every conceivable opportunity would allow them to spread the base out, so that if you had a piece of property that was perhaps not complying in one of the classes, they could subdivide it down into something else and, because it was an anomaly, increase the rate associated with that class.

Mr Spina: If it's of any benefit, in setting the tax rates the municipalities will be required to follow provincially set tax ratio ranges. That's a policy paper that's accompanying the bill. The province will define the tax ratio range for each class of property. Furthermore, those transition ratios can be retained if they are outside those ranges, but any changes in those ratios have to move closer towards the provincially set level. Do you feel that's a sufficient safeguard?

Mr MacDonald: Yes, I think I understand it, and without going into it in detail, I would accept that as being fair, I would suspect.

Mr Hoy: Good afternoon. You make a very compelling case from a business perspective, and I can appreciate your appeal, that if the business occupancy tax is repealed, it should be done gradually and over time. I think that would be a prudent thing to do.

The other point I found very interesting in your submission that varies somewhat from some others was that you state that the education tax is still left on the business component — we recognized that immediately — and with the withdrawal of the BOT, your new tax regime would go from 30% to 42%, yet you're still left with the education component.

If the government thought that the education tax shouldn't be on residential units, homeowners, why they thought it should be left with business doesn't seem to make a very good argument, to me. It's not one or the other, but either it's off everything as a property tax consideration, both for business and residential, or it stays in both places. I'm baffled by why they did what they have.

Mr MacDonald: If I could address that just for a second, I guess business is going to be the user of the education product that we produce in a large way, and I don't see where we should get off scot-free.

1510

Also, it should be more of a user-pay system. From my particular perspective, if I might just digress for a minute, I'm advocating that the apprentices who work for me actually pay for their education. Right now, they don't do that, and it's like a tax on me.

I'm saying that they would have a better understanding of the value of their education and apprenticeship if they paid for some of that training directly themselves, a user-pay system, just like any other college or university student might. Right now, they pay virtually nothing. I think they should pay something, and I'm willing to contribute to that; in fact, I do.

In the four and a half years it takes me to train an apprentice, it costs me in excess of $100,000, but I don't get any recognition for that, none whatsoever, and I would like to, because at the end of that time, they can leave my employ, go work for somebody else, usually Ford or Chrysler, which do not have an apprenticeship program — big multinational, can afford it — and I wind up paying for all of that training. That's like a tax as well on me. But I am willing to submit that, yes, I should be responsible for some of the education tax, because I am going to receive some of those benefits.

Mr Hoy: How would you achieve that? You suggested that education taxes be phased out of the property tax system for both residential and business. How would you apply your last statement to a trainee? You said you were willing to pay for some of this person's education.

Mr MacDonald: No, I said the apprentice or the individual should pay for their own education.

Mr Hoy: Oh, they should. I misunderstood. I thought you were willing to pay some portion of that.

Mr MacDonald: I'm paying the largest portion of it now, and they pay nothing. I'm saying they should pay something.

Mr Hoy: Okay. I understand you. Thank you very much.

Mr Pouliot: Mr MacDonald, a welcome irony is that the person who was the presenter, contributor, right before you is also a medium, small business person, but he is also a teacher.

I see in your text — and you write in a colourful and direct fashion — "the opiate of taxation." I could work on that if encouraged, and we could maybe prepare your next presentation together. You commend the government. You use words such as "timely" and "courageous," words of encouragement indeed. Yet, as your theme develops, you seem to lose that fervour, better associated with youth at the beginning of a campaign. You then say: "Well, yes, but protect me. I know that you are doing a good thing, but I need some further protection from other people out there who exercise the same honourable profession but at a local level."

I hope you're not the victim of a sinister ploy, Mr MacDonald. You deserve better.

Mr MacDonald: I hope not.

Mr Pouliot: The reason I say this is that few people, and I hope it's not the case here, mention the effects of the downloading, fewer dollars, transfer payments, from the federal government to Ontario, about $3 billion. People see the province as saying: "You're the government now. Don't whine. You have the responsibility. You have the tools at hand. You can change some laws. You can legislate."

Sometimes the dark side of me senses an encouragement to say, "You go and deal with your direct relationship now." It will be the municipality, because they're going to have all the demographics, the unpredictable and costly items and that of you, the teacher in the classroom. You will deal one on one with the government. Your right to withdraw your labour might be withdrawn. If not, they will let you go out and then legislate you back.

Your pension plan — and you would like to have a say in education, you say this, so I'm inviting you to have a drink after — is in excess of $50.2 billion. By all actuarial figures, it's guaranteed that they can fund all liabilities for another 35 years. They will find that pension plan with a lot of crust, Mr MacDonald, a seduction seldom seen —

Mr MacDonald: Excuse me, what does this have to do with property taxes?

Mr Pouliot: Pardon me?

Mr MacDonald: I missed something here.

Mr Pouliot: I didn't interrupt you. Please don't interrupt me.

Mr MacDonald: I'm sorry, but my time is valuable too.

The Chair: I'm sorry, Mr MacDonald, he does have five minutes to use for a comment or as a question. If he gets too far off track, I'll bring him back. He does wander.

Mr Pouliot: You commend the government. You're the one here, under any circumstances, sir, who is going to end up paying big time, because you're going to get it from all sides. There is no alternative. They have a contingency plan or fund for the downloading, but in terms of Bill 106, there is no fund. It all comes out in the wash. The big people, like you said, the multinationals, they're getting the big breaks, because that's the way the system works. Small industrial will pay more. Residential will be protected and at least they'll get a bit of a tradeoff because they won't pay any more education. You will still be paying your education tax, and you will pick up the slack because you don't have the protection of the representatives of the voters. You'll be left in between.

While you agree with this — because when I go back to Queen's Park, I'm going to say my good friend from Honey Electric, Mr MacDonald, agrees with this. But when you get your bill, I don't want you to hate me next year because your taxes go up.

What I'm saying is, under the present system, unless they change the rules of the game in short order, people like you are getting it right between the eyes, and I don't want to see that happen to you. That's all I'm saying, sir. I'm putting you on caution. I'm with the third party. I have nothing to lose, but I can count. I've been there long enough. I had four ministries with the previous administration. No better, no worse, but I'm saying, not because they want to but the way the system is designed, you will become more vulnerable.

The Chair: Do you have a concluding comment to that?

Mr MacDonald: I've always paid. I expect to pay. I don't know how I can get out of it. I just don't want to pay any more if I don't have to, like anybody else. Not only that, I expect this government to treat me fairly. That's all I ask.

The Chair: That's a marvellous note to conclude on. Thank you very much, Mr MacDonald, for taking the time to come in and present to us. We appreciate it.

ROL-LAND FARMS

The Chair: We welcome now Mr Vander Pol. Welcome to the standing committee on finance and economic affairs, Mr Vander Pol. It's a pleasure to have you come

in and present to us. I should point out to the members of the committee that I've been an acquaintance of Mr Vander Pol for some years. We used to negotiate tomato prices many years ago.

Mr Pouliot: Who won?

The Chair: I always said that he won.

Mr Hank Vander Pol: That question is better answered off the record.

The Chair: I always admitted that he won, but we were always very happy.

We have 20 minutes, Hank. If you'd like to make a presentation, we can fill any remaining time with questions.

Mr Vander Pol: Thank you, Mr Chairman and members of the committee. I recognize a number of faces. Quite frankly, I didn't put together a long epistle, mainly because I think what's really relevant for me, as a primary producer and an employer in Kent and Essex counties — and just by way of an introduction, I'm the president and CEO of a family farming business which employs some 200 employees in both counties now. We farm about 1,600 acres of cash-crop land. We do a couple of other things. Our business this year will turn a farm-gate value of something approaching $50 million. That's probably still small business if you're in downtown Toronto, but it's what I consider a reasonable family farm in Kent or Essex counties — farming business; it's not just a farm, it's a farming business.

As a taxpayer in four different municipalities, it is of some concern to me that this restructuring effort be done fairly and appropriately. To that end, my opening comment would be that taking education taxes off of property taxes has been a long-standing issue with me and I think it has finally come about. I've always had a tough time understanding why, because I own property, I should pay education taxes. I always thought that was a function of people as opposed to property. That Is finally being rectified. Of course, ancillary to that comes the issue of restructuring the property taxes.

1520

I've got some concerns, and they're not with the act and the principles of the act at all. The concerns, as I understand them, are really in terms of the regulations, when and if those are put together. By way of an example, those of you who are from this part of the country will understand that there's quite a diversity in farm land values, and they're very subtle. You can't tell when you drive through the countryside which piece of property is worth what. I can't in my own mind at this particular point in time be satisfied that when you talk about current-value-type assessing it's going to manifest itself in farm values and farm assessments.

I still haven't sorted out in my own mind, for instance, how the arbitrary 25% of residential rates would apply to farm properties in a particular area. Those of us who are from Kent county are going to get a big surprise here one of these days and we're going to find out what kind of government we're going to have, Jack. I'm not taking any bets on that one either yet, by the way.

These are the kinds of things that concern me as a taxpayer. I would be disappointed if taxes went up significantly as a result of this function. I don't see any reason why they should. The total tax load is going to be there, and what really matters is how it's equitably distributed. If tax rates have to go up because of the downloading that was alluded to previously, so be it, as long as it's done equitably.

One of the concerns I have is, again, the 25% issue and the arbitrariness of 25%. I wish my good friend Bob Seguin was here. Maybe he could shed some light on how they came up with that number.

I wonder whether it wouldn't be more appropriate to suggest that taxation and potential taxation changes on productive agricultural properties — and you can put woodlots in that category — wouldn't be better served by a system that would mandate that in the next X number of years — and I'll leave that up to the regulators — there be some function of what the current effective rates are — the effective rate is the mill rate less the rebate — as opposed to saying that now all of a sudden we're going to hitch our wagon to a different star and that different star happens to be residential properties.

Having said that, it seems to me that if there are inequities as a result of historical assessments and all that, it would make sense to have a period of frozen rates on those kinds of properties and then a phase-in period as opposed to saying arbitrarily that it's now going to be 25%. It's a way of possibly mitigating any shocks, and I respect what the gentleman over here said about what might happen. I might get killed going home today too, so I'm really not that concerned about it. If we want services from society and we want the government to supply those, then we have to pay our taxes. Hopefully those taxes, in total, won't be any greater than they have been historically.

Those are the kinds of things I would just like to allude to. There may be some questions from some of the committee. Again, my major concern is not so much who controls taxation ultimately, because I think the best place to have that is at the municipal level, quite frankly, because I can get at a local politician a whole lot faster at least than I can get at some of you at Queen's Park. A few of you I can get at pretty quickly at Queen's Park. I don't think those of you who serve Ontario at Queen's Park should be involved with those local kinds of issues anyway. The local politicians can deal with that quite effectively, and I'm quite prepared to pick up that challenge as a taxpayer in Kent county, Essex or wherever it happens to be.

I am concerned about the transition period and the effects of that transition period and the arbitrariness of 25%. I could make an argument that it should be some percentage of the commercial tax rate or the commercial assessment rate as opposed to the residential rate. It's a notion I think merits some thought.

I'll finish there. I see there are at least a couple of questions, and I'd be only too pleased to try to answer them.

The Chair: Thank you very much. That gives us about five minutes per caucus. We could start with the Liberals.

Mr Hoy: Good afternoon. Congratulations on your recent appointment. You'll be even more deeply involved in the farm scene if you weren't already.

You question the 25% on the residential and 75% being forgone. I wondered about that same thing, but I suppose it relates to the rebate itself being probably more political than thoughtful. Even to that, I would say that other governments in the past have tinkered with that rebate. It has been lower. It was suggested at one time that it even be 100%. There was some friction over that as well. You would know well that the farmers do want to pay their fair share of tax. They don't want to be seen as being handled any differently than anyone else, though I suppose within the ministry they're suggesting that the finance minister would go this route, I assume. Maybe Bob Seguin can answer that better than I, but that's what I assume it is. It's just to mirror something that was going on prior to this.

Farm property value is an interesting point. Land values here, from my understanding, have escalated a little bit, depending on the locale, in the last year or two probably based on grain prices and other commodity prices, and then there's land that you want to make sure you walk across before you sign the cheque. Land values here range maybe $1,000; some people are paying $6,000 an acre. It all depends, I suppose. You have a good point there.

You're in a highly value added business or diversified, we'll say, at least. There have been some concerns in other areas of the province that value added farming could be taxed differently than it currently is. How do you feel about that? We're talking about market gardening, roadside businesses etc or potentially new businesses that neither one of us has thought of.

Mr Vander Pol: To address the issue of value added, I really question what the words "value added" mean in the context of agriculture, to be honest with you. Anything that is produced on the field or in an enclosed environment, whether it's a greenhouse or a mushroom farm or that kind of thing — I consider the production we do in our greenhouses and the mushroom production facilities just as much agriculture as growing tomatoes out in the field or growing corn in a field or, for that matter, milking cows as we used to.

If you look at value added as being something that changes the natural state of a commodity, processing or something like that, then I wholeheartedly concur that that's commercial. I have a little trouble understanding why anybody would think that because we grow mushrooms in a controlled environment, for instance, that's not agriculture. I don't think you're implying that either. If you were to process that product, and packaging is kind of a grey area — but if you don't really change the state of the vegetable or the fruit in itself, I consider anything up to that point in time to be agriculture, and I would expect that would be treated as agriculture under these rules.

Mr Kwinter: I was interested in your comment about how you could never figure out why education tax should be attached to property and not to people. I'm sure you're aware that under the proposals of Bill 106 the education tax is going to be transferred from the municipality to the province. The province is going to collect the education tax from businesses. Do you have a feeling on that?

Mr Vander Pol: If you really want to cut to the bone, my feeling is that there's probably only one fair tax, and that's an income tax or a sales tax, a consumption tax, those types of taxes, as opposed to attaching it to real estate. The only justification I can see for real estate taxes or property taxes is that the services that are provided to those properties ought to be paid for by those properties. That might be policing, roads and fire protection, these kinds of things. The value that's added to the property by those services should be paid for by those taxes.

Mr Pouliot: Good afternoon. I too echo the positive sentiment: Congratulations. You're obviously a very dedicated and successful person, and I commend you. I feel a bit intimidated, Mr Vander Pol. I wish I could have you benefit by way of conversation exchange from my comments on farming, but I'm in your hands, I know very, very little. Suffice it to say that I'm more comfortable with mining. I got every one of them to buy Bre-X about a month ago, but they seem to have recovered.

Mr Vander Pol: There's nothing wrong with buying it, as long as you sold it on time.

Mr Pouliot: I share your sentiment that education should maybe be handled directly by the province, and perhaps to go further than what is being proposed, and the government is on the right track there, is to not assess at the commercial-industrial level because you're not to do so any more at the residential level. To quote you, not verbatim but approximately, we should have property assessment for the services we pay, and I think you mentioned roads — not highways — and policing. Did you have in mind welfare, libraries, sewer and water, seniors' health, assessment, seniors' housing and drugs etc? That too is going to be a shift.

When you made your presentation, you inserted into it an element of time. I took it, and please correct me if I'm wrong, that in order to digest all this and in order to avoid too many surprises, they should push through with the same determination but maybe take a little more time so we can better assess the pros and cons as if it's a marketplace.

1530

Mr Vander Pol: My comment about time relates to the kinds of things any businessperson hates, and those are surprises, surprises in added costs. Surprises in added revenue are usually not that bad. You can deal with those quite nicely because the government always wants to take their share anyway, so it's not a big deal. But seriously, it's important to those of us who are trying to run businesses that there are as few surprises as possible. That allows us to plan.

Having said that, in light of the fact that I haven't seen the detailed regulations, I'm really not in a position to comment, in all due respect to the government and anybody else, on the detail. I offer this as a possible way of mitigating the potential for surprises; the total won't change, but surprises to the individual, because if there's a negative surprise for me, there might be a positive surprise for somebody else. I don't know which side of the fence I'm going to fall on.

In our little niche I'm saying that — and I just offer it as a suggestion — rather than saying 25% arbitrarily,

maybe the $171 million in savings is appropriate and should stay there. But after you change the assessment process and the basis for assessment, how does the $171 million wash with the 25% and all that kind of stuff?

Mr Pouliot: Mr Vander Pol, when we blend everything — and it's happening somewhat fast, quickly — there's the reassessment. Every item is fairly good. It's only when we put them together that it starts becoming complex. One of the problems we all have is that we don't know, in some cases, even the approximate costs. No final decision has been made as to who is going to pay for what? Is it going to be 30%? They're negotiating with AMO and with other people as well, and I think that's wise. You wouldn't buy a tractor, Mr Vander Pol, without knowing the costs, and who could blame you? It's only basic and wise management.

The people who will pay — and you're right, there's only one taxpayer — and also the people who will do the administration, it seems we're all asking the same questions before we can make some decisions as to where we will establish our priorities: What about the cash flow? What about adjustment in terms of downsizing our own operations, becoming leaner? It will be okay. The sky will not fall, but the clouds may get very low. What I am saying is that we all need more database, more information before we can make the right decisions.

Mr Vander Pol: If I might respond to that question or comment, yes, that's right in theory. In practice, we all live with risks, and the question is whether the risks are tolerable and whether we can live with them. My suggestion was only made as one way that might be of no great cost to anybody of reducing some risks in what finally comes out of the pipeline.

As a businessman, I live with risk every day, and usually all day. That in itself doesn't scare me. I recognize that any time you change you're not — it's like getting married: You think you know what you're getting into, but you don't always know. Having said that, in all due respect, as being single —

The Chair: With that, perhaps we could move to the government for a question.

Ms Bassett: Everybody is happy to move on to a new subject, so let's go back. You were mentioning the problems of current value. I just wanted to point out that the Fair Municipal Finance Act establishes a separate property class for farm lands and eligible managed forest on which a tax rate of 25% of the residential tax rate will apply.

Your question was, what will the eligibility be? The eligibility for that, if you're going to be a farmer or not, will be that the same criteria will apply as applied in the past. So if you could apply and got it before for the tax rebate, the same criteria more or less will apply. Just one thing and then I'll hear what you have to say. The eligibility requirements will be set out in regulations later this spring and will fine-tune it.

Mr Vander Pol: I would expect that the eligibility requirements will not be significantly different from what currently exists. That would be my expectation, only because of the historical significance of that.

The concern I have, and it's strictly a matter of how the regulations will be written, is that I don't know what the relationship is between current residential property tax assessments and agricultural properties in the same neighbourhood, in the same municipality, in the same county or, for that matter, across the province. My concern is, how well are those two linked at the moment, and how well does that linkage truly reflect the arbitrary 25%? I can't answer that. I'm not a tax type. I just try to make a living farming. But that's my concern. If that linkage is hard, then my issue is moot.

Ms Bassett: That's something we will have to make sure is clarified.

Mr Rollins: The Minister of Agriculture, when they announced we were changing the method here, basically assured us it was supposedly to be a wash; that it was to compensate for that rebate and it looked as if it was going to wash out awfully close to that. Whether it gets to that exact figure or not will remain to be seen.

There's one other question we have some concern about. I come from eastern Ontario, and we don't see land value at $6,500 an acre. I know there was a 50-acre parcel just out of town here that sold for $60,000 — you know, that kind of money. Hopefully you don't grow that wacky stuff on it, but you've got to grow something on it to make that land produce that kind of value with it. How do we address the problem in other parts of Ontario where we have farmers who want lots severed off their property, but they don't want it to be taxed as a severed lot until such time as they want to dig the hole or put a For Sale sign on it? They want it both ways. How do you see it from your perspective? Do you have some of those lots too?

Mr Vander Pol: I really don't want to answer this question. I've got a lot before the OMB right now which they won't let me sever because there's already a house on it. Never mind. That's off the record.

Mr Hudak: Too late.

Mr Vander Pol: I realize that, but as long as the record doesn't go to the OMB.

I don't think you can have it both ways. If you're going to sever off a lot for retirement or for whatever reason and it's allowed, then, quite frankly, if you know that upfront and you know what the rules are — if you make the rules retroactive, that's one thing, but if you know upfront that that's now going to be taxed residential, then you have your choice. I respectfully submit that in a number of instances, at least, these things are done perhaps marginally prematurely in order to guarantee that the rules won't be changed somewhere down the road. That's the risk thing that I talked about earlier. I really don't have any trouble with having it one way or the other, but not both ways.

The Chair: Thank you very much. We appreciate your taking the time to come in and make a presentation to us, Mr Vander Pol. We appreciate that kind of input.

That brings to a conclusion our deputants in Chatham. I have a request for a motion to be brought, by the government.

Ms Bassett: Mr Chair, if you'll permit me, I'd like to move that the English version of the pre-budget consultation report be tabled with the Legislature as soon as possible and that the French version be tabled when it's available.

Secondly, I'd like to move that a copy of the report be delivered to the Minister of Finance as soon as possible.

The Chair: Comments on the motion?

Mr Pouliot: In the interests of time, the point is well taken. We too understand that the French copy will be produced as soon as it is possible, and I thank you. We'll support it.

The Chair: Any other comment?

Is the committee in favour? Opposed? Carried.

This committee stands adjourned until 9:40 tomorrow morning in Port Colborne.

The committee adjourned at 1543.

CONTENTS

Wednesday 16 April 1997

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Chair / Président: Mr Ted Chudleigh (Halton North / -Nord PC)
Vice-Chair / Vice-Président: Mr Tim Hudak (Niagara South / -Sud PC)

Ms Isabel Bassett (St Andrew-St Patrick PC)
Mr Jim Brown (Scarborough West / -Ouest PC)
Mr Ted Chudleigh (Halton North / -Nord PC)
Mr Joseph Cordiano (Lawrence L)
Mr Douglas B. Ford (Etobicoke-Humber PC)
Mr Tim Hudak (Niagara South / -Sud PC)
Mr Monte Kwinter (Wilson Heights L)
Mr Tony Martin (Sault Ste Marie ND)
Mr Gerry Martiniuk (Cambridge PC)
Mr Gerry Phillips (Scarborough-Agincourt L)
Mr Gilles Pouliot (Lake Nipigon / Lac-Nipigon ND)
Mr E. J. Douglas Rollins (Quinte PC)
Mr Joseph Spina (Brampton North / -Nord PC)
Mr Wayne Wettlaufer (Kitchener PC)

Substitutions / Membres remplaçants:
Mr Jack Carroll (Chatham-Kent PC)
Mr Pat Hoy (Essex-Kent L)

Clerk / Greffier: Mr Franco Carrozza

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Thursday 17 April 1997

Journal des débats (Hansard)

Jeudi 17 avril 1997

Standing committee on finance and economic affairs

Comité permanent des finances et des affaires économiques

Fair Municipal
Finance Act, 1997

Loi de 1997 sur le financement
équitable des municipalités

Chair: Ted Chudleigh
Clerk: Franco Carrozza

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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Thursday 17 April 1997

Jeudi 17 avril 1997

The committee met at 0945 in Port Colborne city hall.

FAIR MUNICIPAL FINANCE ACT, 1997
LOI DE 1997 SUR LE FINANCEMENT ÉQUITABLE DES MUNICIPALITÉS

Consideration of Bill 106, An Act respecting the financing of local government / Projet de loi 106, Loi concernant le financement des administrations locales.

WINE COUNCIL OF ONTARIO

The Acting Chair (Mr Steve Gilchrist): Good morning. My name is Steve Gilchrist. I'll be sitting in the chair until Tim Hudak arrives.

We're here this morning to hold public hearings on Bill 106, an Act respecting the financing of local government. Our first presentation this morning will be from the Wine Council of Ontario, and I'd ask the presenters to come forward. Mrs Franklin, good morning. We have 20 minutes for you to use as you see fit, divided between presentation time and question and answer time. If there is time for questions, it will be divided amongst the three caucuses.

Mrs Linda Franklin: Good morning. I don't think I should take more than about 10 minutes, so there's plenty of time for questions anybody needs to ask.

Committee members, ladies and gentlemen, we really appreciate this opportunity to come and address your committee on an issue of fair taxation that we think is directly relevant to the bill you have in front of you, and that is the issue of winery assessments and their potential impact on wineries in the Niagara region and throughout Ontario.

As some of you may know, most of the estate wineries in Niagara — and the bulk of wineries in Ontario are estate wineries today — are located on land that's zoned agricultural. It makes good sense because most of these wineries have a very large farming component. In fact, many of them start out as grape-growing farms and become wineries. Because they're zoned agricultural, they don't have access to the kind of services that, obviously, heavy industry would have. Many of them don't have water service, electricity. They have to dig their own sewage systems — fair ball, because they're agricultural.

This is far more serious in the escarpment-area lands. Wineries there are only allowed to be located there because they claim to be adjuncts to agriculture. No industry, as you know, with some minor exceptions, is allowed in the escarpment area, so our wineries have to be able to prove that they are an agricultural activity to be allowed on the escarpment. We accept all these restrictions because we think they are part of being operations rooted in farming.

Up until now the wineries have always been assessed as farming operations as well, for the purposes of property taxes, by provincial assessors. Earlier, though, mid-spring 1996, Niagara region went through a market value assessment process. Going through that process triggered a re-evaluation of wineries and other properties, obviously, in Niagara by provincial assessors. When the provincial assessors came out to our wineries, they told us that for tax purposes, the province was going to treat the wineries as though the winery building had been severed from the farms they sat on. They created a new roll for these severed winery buildings under an industrial assessment factor.

This apparently is not strictly allowed under the Assessment Act, but I think they did it out of fear that if they did what they thought the Assessment Act required of them in relation to our wineries, they would have had to have zoned the entire property industrial, which would have meant that some of these wineries were paying taxes higher than the SkyDome. Clearly, that's not acceptable, and I think wasn't to them.

But the end result of the decisions that were made is that a number of wineries in the Niagara region are facing really staggering tax increases today. In some cases the increase is thousands of dollars; in some cases it's tens of thousands of dollars. To give you a couple of examples, two of our estate wineries — one that does no more than 3,000 cases of wine a year, their total production — saw their tax costs go from $800 to $10,000, a pretty huge jump for folks that have no industrial services to rely on but are paying industrial tax rates.

We're really concerned about this. We think that not only might it be the difference between staying in operation and going out of business for some of the new wineries that are just starting to get established, with all the overhead costs that go along with that; we're also concerned that it's going to be a serious deterrent to anybody thinking about getting into our business. Right now, the wine industry in Ontario is on a roll: Our sales are up, there's lots of room for expansion, there's starting to be a booming tourism industry in touring estate wineries. We're concerned about stopping that growth in its tracks as a result of these assessments.

To give you a couple of examples, already one of the wineries in St Catharines, Henry of Pelham, has put plans to expand their winery on hold, because it's cheaper for them to rent offsite commercial space and truck things back and forth than it is to put up a new building on their winery which would be assessed industrial and cause their taxes to go through the roof.

Another winery, in the Beamsville area, DeSousa — that just put a very large investment into infrastructure, built a very nice winery — is moving their entire operation to downtown Toronto. It's cheaper for them to be located in commercial space in downtown Toronto and closer to the folks that buy their wine than it is to stay in the Beamsville area and pay industrial taxes on property that's mostly farm.

Another issue that is important for this committee to understand is that in talking to the assessors, their view is that the wineries are just the tip of the iceberg; that what's going to happen from here, particularly as 1998 comes around and all of Ontario gets reassessed, is that any farming operation that does value added on its property, involves itself in some commercial activity, is going to be subject to this industrial tax classification. The reason seems to be that there's been a court decision in relation to a cherry producer that says if you take a cherry grown on your farm, take it into a building and remove the pit, you're involved in industrial activity and therefore you're an industry.

I guess the wineries were the first ones that got targeted for a look after this court decision, and what is making us industrial, apparently, is the fact that the grape juice we take in ferments into wine, so there's been a change made in the product going from the vineyard to the winery. That makes us industrial. The only industrial equipment these estate wineries have onsite are tanks and bottling lines, but the change in the product has made it industrial.

That means, as we understand it, that anybody who changes a product on their farm will end up being classed industrial if there isn't something done to address this issue. Grape producers who process on their farms, maple syrup producers, anybody who's involved in any kind of farming activity beyond just farming the land, is going to end up industrial.

Our wineries are appealing their 1996 and 1997 tax assessments to the Ontario Municipal Board, but even if we are successful, because this process is going on and because a new Assessment Act will be coming in 1998 our belief is that even if we win at that level, we'll be starting at square one again in 1998 unless something is done fundamentally to change the way these operations are looked at.

To date, we've had an opportunity to brief all the municipal councils and the region of Niagara. We have supporting resolutions from all of those councils looking at a solution with the province.

We've also had a chance to meet with the Minister of Finance. He has expressed concern for this situation. He has directed staff in the Ministry of Finance to look at possible solutions. We are hopeful that a solution can be found in the near future that provides some assurance to the wineries and to those considering opening a winery that they won't be treated like General Motors for tax purposes. If you were a grape grower in Niagara sitting on a bunch of acres that you thought you might turn into a winery, you'd sure think twice about doing it if you realised your taxes would go up 1600%, and that's exactly our fear.

We're raising it with the committee today because we want to reinforce the fact that this is a significant problem in looking at taxation and assessment, particularly in relation to farming operations, and we think it needs to be addressed in addressing the bigger picture of assessment.

The Assessment Act right now doesn't have a way to recognize value added farming operations and commercial activities on farm, and we think there needs to be a way to address that somehow in legislation or policy. It's important to do that, because doing value added on farm has been a goal that the ministries of agriculture, both federally and provincially, have supported for a long time to try to keep family farms viable, keep agriculture viable, and of course this is a terrific disincentive for farmers to do any of those sorts of things.

We think that in moving to cut taxes for farmers by replacing tax rebates with new, lower property tax rates, this bill does seek to address one important aspect of the current assessment system for the farm community. But we'd submit to you that it's also critical to address this issue of commercial activity on farm properties, such as estate winery operations; otherwise, we think the new assessment system will be faced with the same quandary we face today, namely, that the only way assessors can classify this activity currently is to place farm commercial activity in the same industrial category as General Motors. Even they tell us that they're not comfortable with that decision, but they just don't seem to feel there's any other opportunity or avenue for them currently.

We don't know what the best solution is, whether it's a farm-commercial classification or some other way of addressing it in the act, but we'd ask this committee to look at possible solutions in your deliberations on this bill and work with the Ministry of Finance before Bill 106 becomes law. We think this is the best opportunity to address this before we're all in the soup in a year from now.

We appreciate your consideration. Thanks very much.

The Vice-Chair (Mr Tim Hudak): Thank you, Ms Franklin. That leaves us about three minutes per caucus for questions, beginning with the official opposition.

Mr Monte Kwinter (Wilson Heights): Thank you very much. You raise a very interesting question I'd like to pursue. We were in Chatham yesterday and had a substantial farm operator talking about this exact issue of value added. He outlined the issue that he grows mushrooms and packs them and ships them; he feels that is value added but should not affect the assessment. The minute he starts canning them, he's in a different issue.

I have a conflict of interest. My family are the largest breakers of eggs in Canada. To use your example, we take eggs and we break them. We don't change them; we just separate them and do everything else. We're a business. Our plant is in Etobicoke. By extension, if we were to move that on to a farm, we'd be saying: "We're just breaking eggs. We're not doing anything. We should not be paying the industrial assessment."

It's a very difficult situation, where people who are doing things in one section of the community are assessed as commercial or industrial, while others, because they happen to be doing it on a farm property

but may be doing exactly the same thing, say "No, we're an agricultural assessment." How you reconcile that I really don't know. You raised the issue that some people say it's cheaper to move the bottling operation off the farm. That may be what you have to do.

Mrs Franklin: I think you're right. It is a difficult issue to reconcile. In thinking through this issue from our perspective, we would probably argue that for wineries or other operations like the ones you describe which sit on industrial land already, which have access to industrial services, it's fair ball to tax them as industry. Frankly, a lot of the estate wineries would say to you today, "If we could get the town to put water service into our winery, to dig the sewer systems, we'd pay the industrial taxes because it would save us money."

I don't think we'd argue for a minute that Andrés or Vincor or any of the wineries that are large operations that sit on industrially zoned land shouldn't be industrial; of course they should. But when you have a farm operation that has a barn they've turned into a winery retail store, has no services at all from the town, it looks like double taxation, in a way. They're paying the same rate as someone that has all these services, but they're also then paying to bring all the services to them. For us, that's the dividing line.

Mr Rosario Marchese (Fort York): Thank you, Mrs Franklin, for your presentation. Have you had a chance to look at the bill or have lawyers looking at the bill?

Mrs Franklin: No, we haven't looked at it in any legal way.

Mr Marchese: You obviously have a market value system here at the moment, since last year, and wonder whether there's anything in this bill that helps you out. Having looked at the bill, is there something that does that or nothing at all?

Mrs Franklin: We don't think there is. In talking to the assessors as well and some of the folks in the region who have been at seminars on how this bill will operate and how the new assessment system will operate, they don't believe there's a way of addressing it in the system.

One of the things that was initially suggested to us is that the new system might allow municipalities to make some of these decisions in terms of how properties are assessed. In fact, as we understand it, that's probably not true; the classifying of properties is probably going stay in the hands of the province. We think this is something the province is going to have to address in the big picture, and I don't think there's anything in this bill at the moment that would do that directly.

Mr Marchese: That's why you've had discussions with the Ministry of Finance — not the minister, necessarily, but the finance people. They have assured you they are looking at it somehow?

Mrs Franklin: Right. We had a chance to talk to the minister directly a few weeks ago, and he has assured us that he'll have his folks take a look at it too.

1000

Ms Isabel Bassett (St Andrew-St Patrick): Thanks very much, Ms Franklin; nice to see you here. As you know, we in the ministry really appreciate the value of the wine industry to Ontario. As a drinker of it, I am always pushing Ontario wines. Congratulations on the job you're doing.

I know you've met with the minister and me and the ministry. The minister appreciates your concerns. I understand that right now nothing has been worked out, but we do have amendments that can come into the bill; we are working on it. I just want you to take that message away. It's very foremost on our list of things to be concerned with, because we realize how important it is to Ontario.

Mr Marchese: Hear, hear, for red wine.

Mr Douglas B. Ford (Etobicoke-Humber): Good morning, Ms Franklin. There's a fine line. My friend in the opposition was talking about cracking eggs. The same applies here, in that here you have one commercial winery in an industrial area and then you have yours on your farm, so to speak, and once the transition period comes into the barn or the stall or the factory you have there and you start processing, that's when it becomes another product.

Competitively, your wine goes on a shelf with the guy in the industrial area, so you automatically become a competitor. It would be rather unfair if you got dispensation on one hand and he had to pay on the other hand. Quite honestly, he would be complaining, "Hey, all these different farms" — not only yours, but the 50 other people who were doing the same thing.

This is a fine line. When the assessor comes in, he looks at your property; he doesn't tax you on that vast vineyard you've got but on that little block you've got there that's processing. Probably that in some sense is a justification due to the competitive nature of the business. On the other side, the other big industrial guy is buying from the 50 other farmers their grapes, period. He's bringing them in and processing them, whereas you're doing it yourself.

Mrs Franklin: Interestingly enough, this issue came up at our board, obviously, because we represent the entire industry. We have the large producers, Andrés and Vincor; we have very tiny producers like Lakeview Estates. We have a consensus at our board to drive this forward, and that includes Vincor and Andrés.

They're quite comfortable sitting in an industrial assessment. They believe it's appropriate. They also agree that it's inappropriate for the small estate wineries to be taxed at the same level they are in the absence of the services they enjoy in the winery. It's awfully expensive to trek all the water into your property for wine-making purposes because you don't have waterpipes from the town. In terms of the wine industry, we don't have a problem differentiating. We don't, as an industry, believe the competitive disadvantage is so great that large wineries can't support estate wineries in this goal.

The other thing to bear in mind, though — you're right. It's a very fine line we walk, and it's not walked with uniformity in the province right now. For example, there is a very large juice processor, Wiley's Juice, a block from Henry of Pelham winery. They have a farm assessment right now. We have maple syrup producers a couple of blocks away doing industrial activities, by the definition that has to be used under the Assessment Act right now, classified as farms.

You're right, it's a tough line to walk, but we're going to have to grapple with it. As I say, when the Niagara process hits the province, it won't just be wineries that are affected but all sorts of farming operations. It's something that'll have to be struggled with even though, I agree, it's going to be hard to figure out where to draw the line.

The Vice-Chair: Thank you very much, Ms Franklin, for your presentation to the committee today. Have a good day.

PEMBINA RESOURCES

The Vice-Chair: The next deputation is Pembina Resources. Gentlemen, welcome to the committee. Any time you choose to leave from your 20 minutes for your presentation can be used for questions from members of the committee.

Mr Larry Elliott: Good morning, ladies and gentlemen. I'm here today representing Pembina Resources. My name is Larry Elliott. I'd like to introduce the vice-president of our Ontario operations, Brian Boulton. We are here today to seek changes in the Assessment Act in regard to taxing offshore pipelines. Please refer to the handout we have provided.

This handout will describe who we are; our personnel requirements; our wage expenses; our operating and capital expenses; our purchasing and hiring policy; how we benefit the treasury of Ontario; the background to these offshore municipal taxes; our key concerns; our pipeline infrastructure; the municipal taxes we pay; and finally, our suggested changes.

Who is Pembina? Pembina Corp is a Canadian company incorporated in 1954. It's a member of the Loram Group of Companies, a privately owned major Canadian organization based in Calgary, Alberta. In addition to oil and gas, activities of the Loram Group encompass coal mining in western Canada, real estate and venture capital investments, the supply of railway maintenance services and the manufacture of heavy equipment for railway maintenance worldwide.

We began our operations in Ontario in 1976 with the acquisition of Western Decalta Petroleum. We grew even bigger in 1980 with the purchase of Anschutz Canada Exploration, which was an American company out of Denver. Finally, in 1994 we purchased Telesis Oil and Gas, which was a division of Consumers' Gas.

Our headquarters in Ontario are in Port Colborne, but we have facilities in Port Maitland, just south of Dunnville; the Nanticoke compressor station, near Port Dover; the Port Stanley compressor station, near London; the Morpeth gas plant, just south of Chatham; the Port Alma compressor station and the Renwick gas plant, near Leamington, Ontario.

Presently, we employ about 89 people per year, but this year we're going to do some extensive drilling, so our staff will grow to 147 people. Those 147 people are going to cost us in excess of $7 million this year in wages. Our operating expenses are estimated to be about $15 million, but because we've got some extensive drilling programs this year we're looking at another $25 million in capital expenses, so we're planning on spending $41 million in the province this year.

Where do we spend our money? We have a policy of trying to spend all our money in the areas of our facilities and do the hiring in these same areas. Provided prices are competitive and that quality and deliveries are acceptable, we will purchase as many goods and services as we can in the areas of our operations. If not available, we research the rest of Ontario and then Canada, and then, only as a last resort, the United States.

Pembina Resources strives to hire all the required seasonal employees from the areas of our operations. As an example, in 1997, 90% of all our seasonal and contract personnel were hired out of the Niagara and Haldimand-Norfolk regions. These seasonal and contract personnel will receive over $3 million in salaries. Salaries will be used to purchase goods and services in Ontario.

Other benefits from our activities in Ontario: We pay taxes in excess of $1.4 million; we pay royalties to the provincial government of Ontario in excess of $3 million a year; we pay royalties to landowners in excess of $2 million a year; we pay the province of Ontario for leases in excess of $200,000 a year; we pay landowners in excess of $60,000 for leases.

I'll give you a background to these municipal taxes for offshore pipelines. In the late 1940s the municipalities bordering on the north shore of Lake Erie were allowed to extend their boundaries to the United States-Canada boundary line. You can see those black lines on that chart that go right out to the middle of the lake; that's the extension of the boundaries. At that time there were few natural gas producers working on Lake Erie and very little pipeline. In fact, the pipeline was probably less than 10,000 feet in the lake in total. Taxes on the existing pipelines had little economic impact on the gas producers of that day. This situation has changed dramatically over the years.

1010

Pembina is the largest natural gas producer on Lake Erie. In fact, now we're the only one. New technology has allowed Pembina and other producers to drill wells further and further out into the lake. This has resulted in large pipeline systems, required to bring the product to the consumer. As a result, the municipalities now receive taxes on these pipelines in excess of $1.2 million per year without having to provide any goods or services.

The mill rates are set by each municipality, which means the rate against a piece of pipe could be anywhere from 0.455410 to 0.282859. The market assessment value for these pipelines is upgraded every four years, ensuring that the municipalities receive top dollar for their assessments. The assessed value does not reflect declining throughput in the lines and lower prices for natural gas.

The following are our key concerns.

Pipeline taxes for offshore gathering systems: In 1996, as I mentioned, Pembina Resources paid $1,238,118 in taxes to local municipalities for offshore pipeline systems. Although we pay this amount for taxes, we receive essentially no services for our costs. In most cases, the municipalities don't have to provide water, sewers, roads, police, fire departments; they provide nothing for us for this cost.

We are already paying the provincial government in excess of $3 million in royalties for the natural gas

produced from the offshore wells, and we feel that the amount in municipal taxes is unjust. In addition, the mill rates differ from region to region, as do the decisions made by the assessment offices in each region. There's no continuity at all in the present system.

Regulation 25 of the Assessment Act: The present system does not reflect our declining gas production and gas prices. While the big distributors such as Union and Consumers' have increasing volumes in their pipeline system, our system has decreasing volumes due to declining volumes in the wells. Section 25 of the Assessment Act was introduced to regulate the big distributors. It does not reflect our business at all.

Another key concern is harbours and ports. All the harbours and ports along the north shore of Lake Erie are suffering from cuts from both the provincial and federal governments. Not only do we want to decrease the amount of taxes for our offshore pipeline systems, we would like to see these taxes more fairly dispersed so that local governments that oversee these harbours and ports would have more funds available to maintain the facilities we utilize in our offshore operations.

As an example, Pembina Resources will have to invest approximately $300,000 this year to dredge the harbour at Port Burwell, Ontario — Port Burwell is just west of Long Point — since there is no longer any funding to assist the community in this endeavour. This harbour is no longer dredged by the federal government. The water depth in the harbour is not deep enough to allow the navigation of our vessels nor larger recreational vessels or commercial fishing boats. The taxes we are paying could be better utilized in the maintenance and upkeep of these harbours and ports.

I'll tell you a little about the infrastructure of our pipelines. As I mentioned, in the late 1940s there was basically no pipeline in the lake. Right now, we have over 5 million feet of pipeline in the lake, approximately 983 miles of pipeline servicing over 900 wells. As you can see from the chart, all those lines are pipelines. There are over 900 wells offshore. The wells go into the pipelines and then to various compressor stations on the north shore.

The next insert gives you a breakdown of how we pay our taxes. I broke it down into offshore and onshore. I also did some research and got hold of the local communities and found out what their total tax revenue was for 1996 and compared that, as a percentage, to what we pay for our offshore. As you can see, it's less than .7%, so a decrease in our taxes offshore won't be a dramatic effect on these municipalities in terms of their taxes.

Suggested changes: We told you our problems, so we'd better come up with some ideas.

The first one is that we believe taxing offshore pipelines when there are no services provided is an unjust tax and should be discontinued. This could be accomplished with a change to the present legislation, found in the Assessment Act, which governs the taxes on pipelines. If the provincial government rejects the idea of a total discontinuance of the offshore tax, Pembina suggests two other solutions.

First, let the municipalities extend their boundaries one to three kilometres into the lake instead of all the way to the American border. Pipelines in this area would be taxed the same as they are being taxed now. The rest of the pipelines would then become a pool area, with a mill rate reflecting the lack of services, a total lack of services; 0.10 as an example. The revenue from this pool area would then be redistributed to the ports and harbours along the north shore of Lake Erie.

Another solution is to lower the pipeline assessment schedules for offshore pipelines. These assessment schedules were made for Union Gas, Consumers' Gas, to reflect their growing volumes through their pipelines. This change is justified by declining offshore production and lower prices, obstacles these large natural gas suppliers are not saddled with. High taxes result in less net revenue to producers for reinvestment and the creation of new jobs.

We have related to you who we are and how we do our business, how we benefit the province, how offshore taxes came about and, finally, our suggestions of how this situation could be rectified. That concludes our presentation, and Brian and I will try to answer your questions to the best of our ability.

The Vice-Chair: Great. I think the committee members will have some questions. We have about two minutes per caucus, beginning with the NDP.

Mr Marchese: Mr Elliott, thank you for your presentation. There's no doubt that you are making a contribution to the area and to the province by way of jobs. You talked about the provincial taxes you pay and the municipal taxes you pay.

Mr Elliott: We're not paying provincial taxes offshore, just municipal. Offshore, we pay royalties to the provincial government.

Mr Marchese: All right. You're concerned about the municipal taxation you're paying because you're saying you get no services from them. But isn't it a cost to the municipality to have whatever work you provide in the area, whatever trucks come by — presumably there are trucks. Isn't there a cost to the municipality somehow?

Mr Elliott: No. For example, in the township of Norfolk, which encompasses Long Point, we have no buildings, nothing there at all. All we have pipelines offshore, out into the lake. The only time we go through Norfolk is when we're driving through there to go some place else, just like you would.

Mr Marchese: But with the fact that you have operations along there within this municipality, shouldn't the municipality have some money from the money you're making so that some of it can go back to that local economy to provide services for the area?

Mr Elliott: What kind of service do we get, though? We get absolutely none.

Mr Marchese: Isn't the fact that you operate in this area something that is granted to you?

Mr Elliott: But we're wondering why the municipalities have this area in the first place. Almost all inland waters and oceans are governed by the provincial or federal governments. Why the municipality can extend boundaries out to the American border and charge you for things on the bottom of the lake is a question in the first place. In many of these places we have nothing onshore, we don't have anything to do with those munici-

palities at all; all the infrastructure is offshore; we leave ports that aren't even in those areas. That's the answer to that.

Mr Brian Boulton: Where we have onshore facilities, we pay taxes. We're not disputing those at all. Where we have our gas plants on shore, we pay over $200,000 in taxes for onshore facilities.

Mr Jim Brown (Scarborough West): Thanks for your presentation. I don't know on the map where the pipeline is, but if it's far out into the lake, why wouldn't you take it into the other side, the American side? How would the costs compare for taxation there?

Mr Elliott: Right now there's a moratorium on the American side for drilling. The US Energy Board is having discussions right now to drop that moratorium, but it hasn't happened yet. Besides that, we're producing gas for the province of Ontario, not for the Americans.

Mr Jim Brown: But some of the gas wells probably transcend the border.

Mr Elliott: No, they can't. It's illegal to transcend the border. If you'll notice, where that line breaks up the lake in the middle, that's the US-Canada border; there are absolutely no wells on the American side.

Mr Boulton: We'd need an export licence to go into the United States for gas as well.

Mr Joseph Spina (Brampton North): Thank you for the presentation. We constantly learn as we go along with all these presentations.

There is a reference in the bill, but it's very small, with regard to changing the assessment level and the categories for pipelines, railroads and other utilities. From my understanding from the people in the ministry, I know this is under review. Would it be of any benefit if the pipelines and drilling services were separately categorized, in other words, if you had your own category and you were able to work with a particular mill rate attached to your category which would not be related to any others?

Mr Elliott: Yes, it would. As I mentioned in the brief, we have declining output through our lines. We're not at all like Union or Consumers' Gas, where they're having greater volumes; our volume has decreased. Then we have the responsibility of the maintenance of these pipelines offshore, and if we plug the well that doesn't produce any more, we're responsible for removing that pipeline. There are lots of expenses involved. Yes, a mill rate that reflected the goods and services we actually get for all those pipelines offshore would help us out immensely, because now we're spending a lot more money helping out the ports and harbours along the north shore because of the lack of funding there.

1020

Mr Kwinter: Mr Elliott, do all these pipelines that come out emanate from publicly owned lands or are some of them privately owned lands?

Mr Elliott: The pipelines offshore?

Mr Kwinter: Yes. As they come out from the land, do they abut on to public lands or do they abut on to private lands?

Mr Elliott: No. When they come out of the lake on to shore they come on to our property. We have what we call vaults; we've purchased that property and pay taxes on those vaults.

Mr Kwinter: So you own all the property that —

Mr Elliott: Where they come into shore. We'll pay taxes, though, for the pipelines on land. We're not disputing that at all, because we're getting goods and services from the regions in those areas.

Mr Boulton: Some of the land on shore we own, and some of it is leased land.

Mr Kwinter: The reason I'm asking is that under the law, there are riparian rights. These things don't go out indefinitely. Where people have jurisdiction over the land, there's a fixed limit on how far that goes into the water that abuts their property. It answers one of your recommendations that they have two or three kilometres they can tax and the rest gets pooled. I'm just curious, have you tested whether they have the jurisdiction to go out that far?

Mr Elliott: We've gone to get some legal advice; we're going that route just to check that out. I know it's been in the books, but nobody has actually come to tell us, "This is the way it is." We're showing the townships how they go out to the American border, and that's what's given to us from the province. I question that and always have, so we're hoping we'll get an answer to it.

Mr Kwinter: My advice to you is to check out the riparian rights, because there are definite limits as to how far out you can go.

My other question is, is there any consideration for the fact that this is a non-renewable, depleted resource, a formula so that your assessment reflects that?

Mr Elliott: Right now there isn't. Right now we're being assessed the same as Consumers' and Union Gas, under regulation 25 of the Assessment Act.

The Vice-Chair: Thank you, gentlemen, for your presentation on behalf of Pembina Resources, a very interesting presentation.

Mr Kwinter: Mr Chair, I'd like to recognize the former member from Niagara South, Ray Haggerty. Welcome, Ray.

Mr Ray Haggerty: Welcome to Port Colborne and to this area. It's perhaps unusual that we have an arm of the Legislature out into the public, and this is a very important committee, the economics and finance committee. I sat on it from the time it started until I wound up in 1990. It's a good committee, and I think it'll work well through the province of Ontario, particularly under the circumstances. Tim, I congratulate you for sitting up there today. If I have an opportunity later on, I may change my views a little bit.

The Vice-Chair: Thanks, Ray. Thanks for joining us today.

NIAGARA SOUTH FEDERATION OF AGRICULTURE

The Vice-Chair: Our next deputation is the Niagara South Federation of Agriculture, Ted Augustine. Welcome to the committee.

Mr Ted Augustine: It's nice to be here. To start with, I don't have a whole lot to say. My name's Ted Augustine, as Tim said. My brother and I work together

out at Long Beach. We operate a dairy farm and we grow some crops as well. It's a family farm that's been in the family for five generations now. I'm representing Niagara South Federation of Agriculture, which I am president of.

For the most part, I think farmers would agree with the tax reform in the sector we're involved in. It eliminates what we think is a lot of paper shuffling, and we're pleased with the 25% of residential rate. The one big concern we have is for the rural municipalities; they counted on that rebate from the government. They counted on that tax money as a major source of income for the education, and with them not getting that, that's a major loss of revenue. That's the big concern.

The townships have done — well, our township; I can only speak for ours. I feel the township of Wainfleet has done a good job keeping things under control. There's not a lot of extra fat to trim. You can only tighten your belt so much before it becomes a tourniquet, and that's not necessarily an advantageous situation. That's it.

The Vice-Chair: Very good. The members may have some questions for you. We have about five minutes per caucus, beginning with the government side.

Ms Bassett: Mr Rollins wants to start, since he is a farmer or was a farmer, continues to be a farmer.

Mr E.J. Douglas Rollins (Quinte): Thank you very much for your presentation to represent the farm community. As a government, when we looked at that rebate tax, the cost of sending that application in and sending the cheque out, we realized that money was a lot better in your pocket, in your bank account for you to use to put in crops in the spring and buy fertilizer and things along those lines, rather than your sending in the tax money, applying for it and getting it back. They claim it cost us about $49 a cheque for that bureaucratic red tape, that the money has to go in and back out again, so there's a saving there.

The minister has also suggested that the wash between that 25% and the moneys we give back on the tax rebate should come out relatively close. It's probably never going to be right dead-on to the last penny, but it's going to come out awfully close.

Do you have much problem with severing lots off your farm land for you or your father to retire on, or to build a lot on? How do you think those should be taxed?

Mr Augustine: Personally, we're not severing a whole lot of lots. My grandfather and his father took care of that. How they should be taxed? Personally, I'm not in favour of a lot of severances in farm lands. It leads to a lot of problems down the road. With retirement lots for retiring farmers, research has shown that if a farmer lives in his retirement home for more than five years, he's doing well, and then that house gets sold and that causes problems. I would prefer to keep severances out of farm land and concentrate more on hamlet areas, village areas.

Mr Rollins: One other thing that I know that the Minister of Agriculture is doing, maybe in this area, is putting in the right to farm, hearings for the right to farm. It's one of the areas that I know a lot of farmers have concerns with, because when these houses are sold, their interests generally aren't in farming and they don't appreciate you spreading manure or harvesting at 3 o'clock in the morning or making a lot of dust when the combine goes by. We do have complaints along those lines. That is in the legislation to —

Mr Augustine: We would like to see the right-to-farm legislation broadened a bit and strengthened.

Ms Bassett: Thanks for your presentation. It's nice to hear your comments about our moves in regard to the tax rebate for farmers. Several farmers have said it's very useful to them not to have to put a lot of money up front, that they can now use the money to build, buy a tractor or whatever they have to do that year, rather than wait for a year to get it back. Perhaps you could elaborate a bit on how you or the farmers in your group might use money they don't have to put up front.

Mr Augustine: How would we use it ourselves?

Ms Bassett: Yes. Can you always use it?

Mr Augustine: There are a lot of ways to spend money. My wife is doing the books today, and she made the comment that the cheques coming in are stacked this high and the bills going out are that high. There are a lot of ways to spend money.

Ms Bassett: The minister is very interested in any other suggestions you might have, if you have anything that you haven't put in your submission just now that you think is a good thing we might be looking at.

Mr Augustine: I think the reform is a good thing. As I said, the concern is the loss of revenues to the rural municipalities.

Ms Bassett: The $1-billion annual renewable fund will help spread over — several municipalities have said there are ways they think they can find economies; those that can't will have the extra help.

1030

Mr Kwinter: Mr Augustine, I'm interested in your comments about the concerns about whether the municipalities are going to miss this revenue. Your suggestion earlier was that there really isn't a lot of fat to get out of their expenditures.

Mr Augustine: I wouldn't think there is. I'm pretty pleased with the way our township runs things.

Mr Kwinter: So there's going to be a shortfall. Ms Bassett just said that the government is going to put up this $1-billion renewable resource. That's going to have to go a long way.

There seems to be a perception that the government just makes money, but that's tax money. What is really happening is that that $1 billion that's going to be spent is one group of taxpayers subsidizing another group of taxpayers. It's all coming out of tax dollars. That's the revenue governments have, tax dollars. What is really happening is that it's being portrayed as this great panacea: "We're going to be able to solve your problems because we have this $1-billion tax fund." They don't call it a tax fund, they just call it a fund, but it really is taxpayers' money to pay other taxpayers, because the government has removed revenues from the actual municipality. Do you have any comments on that?

Mr Augustine: You lost me a couple turns ago.

Mr Kwinter: What I'm saying is this: They're saying, "This is going to be a great benefit for the farmers because we're going to — "

Mr Augustine: It makes a big paper shuffle. You put it out here, and then you get it back here, nine months

later. I get lost in the finances. I have trouble keeping the finances on the farm straight.

Mr Mike Colle (Oakwood): Mr Augustine, I appreciate your looking at the whole picture. I know you are a farmer and are very concerned about the Niagara South Federation of Agriculture, but I appreciate the fact that you are concerned about the impact of this change on the rural townships. You mentioned one rural township. What was its name again?

Mr Augustine: Wainfleet township.

Mr Colle: Do you have any idea of what the impact of this change in the rebate might be on them? Have they mentioned a figure or percentage to you?

Mr Augustine: They mentioned it, but I couldn't quote it off the top of my head. There's a representative coming in later today, Mr Andy Koopal. He's a town councillor and could give you more accurate information.

Mr Colle: I want to thank you again on behalf of everybody, because it is the province as a whole, and you have certainly demonstrated that you care about your neighbours and where you live. I think you should be commended for that approach.

Mr Marchese: Thank you, Mr Augustine, for coming today. I suspect a lot of farmers, like you, don't mind the new way of your getting your money back. As you say —

Mr Augustine: Well, it's not that we're getting it back; we aren't giving it away in the first place.

Mr Marchese: Okay, and you all appreciate that, no doubt about it. But one of the concerns I heard from the ROMA conference, rural communities meeting to discuss a number of problems they've had, is the same one you have touched on: the loss of revenue to the townships. They were asking for assurances of the various ministers who were there. The Minister of Municipal Affairs was not there that day, but they were asking for assurances that somehow that money would find its way back to those townships for what they're losing. Of course they weren't getting any assurances.

Ms Bassett, you just heard, said: "Don't worry. There's a $1-billion renewable fund and money will find its way back through this fund." But a lot of the farming community people who were there were very worried that the money's not going to get back and they were asking for assurances. I suspect you're equally worried about that.

Mr Augustine: Yes, it is a concern. I was talking to Andy last night, and he was saying there aren't a lot of details in the plan. As with anything new, it develops as you go.

Mr Marchese: I appreciate that, but the real problem, as you said, is that the community or the township had a pile of money coming in that it was using, obviously, to serve the people in its area. All of a sudden, there's going to be a loss of that revenue. They've got to deal with that. Yes, it's a new system and it's a problem, but if you have less money coming into the township, I suspect it's going to be a lot harder for that township to provide services it's been providing for many years.

Mr Augustine: That's part of the reason we have meetings like this, to have a look at situations as they develop and see problems that might arise. The people who have the say, I feel, will work solutions out that'll see to it. That's what I'm hoping, anyway. Being a farmer, I'm a man of great faith — or a fool. I'm not sure which.

Mr Marchese: You and I, because I am usually an optimist, but I tell you, the way we're seeing cuts in the system in a variety of different areas, I'm not sure a solution is going to be found that's going to work for people, unless they're willing to accept less, which is what I think we're being asked to do.

Mr Augustine, I thank you for coming, and I hope your optimism is a good one and that it will be the right kind of optimism.

Mr Augustine: Are there any other questions?

The Vice-Chair: Mr Augustine, that's about the extent of our time. Thank you very much for a very straightforward —

Mr Colle: He's just getting going. He wants to go on.

The Vice-Chair: You could join Andy, maybe, for the Wainfleet presentation later on.

Mr Augustine: I thought maybe somebody was going to ask me how the cows are doing. We'd be here for hours.

Mr Colle: When is spring coming?

Mr Augustine: Hopefully before summer.

The Vice-Chair: Thank you very much for the presentation. Glad you were here.

GARY COOK

The Vice-Chair: Our next deputation is Mr Gary Cook. Welcome.

Mr Gary Cook: My remarks are quite limited and very general.

Mr Chairman, before I go to the comments I came to make, I heard an interesting comment from your panel, that the minister is considering right-to-farm legislation. I earn my living as a consultant to a client base mainly from the agricultural community throughout the region of Niagara but extending up into Hamilton-Wentworth and in some instances up into middle Ontario. I'm not a farmer, but I come from a farming community and grew up on a farm, so I have a working knowledge of some of the problems faced by the agricultural community.

I sincerely believe that if our government was to adopt right-to-farm legislation, that one stroke would cure a great many problems for the very thing Mr Augustine referred to, and that is that sometimes there are differences of opinion when you have a lot in a rural area and you have a farmer who wants to farm and there is this conflict that occurs from time to time on the very things Mr Augustine mentioned. I see it and I hear about it constantly. I believe it can be fixed in one stroke: Simply say that those who wish to live in the rural area may do so, if they can find a place to live, but having done that, they really can't expect to put the farmer out of business because they don't like how he conducts his affairs. I strongly suggest and recommend the government do that. That's a very worthwhile project that I think would cure a great many sore spots.

The comments I want to make are very general and I'll keep them brief. I don't consider myself any kind of expert on taxation but I recognize the advantages, in my

mind, of Bill 106. My comments extend to the issue of the new assessment system to put real values on property and tax it on that basis. In my own little community I know very well the examples I hear about, of my neighbour who has a home that's taxed at a rate different from mine. His house was built in the same week as mine and has the same number of square footage of floor space. Beyond that, the differences are so minimal as to be meaningless, and he pays less tax than I do on an almost totally identical property. I don't think he created that. I think the assessment system we have had created that.

I think it's unfair to the community and I commend the government for attempting, at least, to level the playing field, to assess each of us the same, according to the value of our property, and to keep it that way. At least there will be no perception that someone's getting an advantage or a disadvantage because the assessment is out of kilter. I believe that is an excellent concept, one we have waited for a very long time. I hope this legislation goes forward without further delay. It's a very useful piece of legislation.

1040

I like the idea, as I've learned about, that the values that will be established will be kept up-to-date and won't be allowed to sit. Property values change, houses are improved, changes take place, and assessments therefore should keep pace with that. As I understand it, the provisions of Bill 106 will deal with that. I think that's a great idea.

Two basic components I believe are inherent in this new legislation. One is that there will be amendments to the assessment and the manner in which assessments are conducted, and from that of course the manner in which property taxes are collected on property. Perhaps I'm at risk of repeating myself, but that's the nut of the problem that exists and the legislation appears to correct that. I believe it's a very useful exercise.

The annual updates, the usual housekeeping on these that must be done, are all needed. There's not much point in reassessing only to find that five or six or 10 years from now the assessment is out of whack again because no one bothered keeping the database up-to-date with values. We've done that in the past and it's not a very useful exercise in the long haul. The system needs to be brought up to modern times in terms of assessment and needs to be kept up, and I believe the legislation the government is proposing does that.

The business of averaging the increases so that no one is going to be damaged unfairly or unreasonably by a sharp increase in property taxes as a result of the reassessment is a very useful exercise as well. There are many people in the community who really can't afford a major jump in their property taxes. The concept of levelling the field a little so there are no significantly large increases in any one year as a result of reassessment is commendable. Those who can least afford it will get the best benefit from that. I commend the government for that idea in this legislation. There will be many people who will thank you for that.

I like the idea of the change in the system where eligible forests will be treated differently. There's a great deal of paperwork that takes place, and we talk about that problem from time to time with some of my rural agricultural clients. The legislation is going to eliminate a great deal of what I call red tape, if I can borrow from Frank Sheehan's book, and it needs to be done. A forest that could be looked at as being that, a managed forest — there are lots of them around — needs to be treated that way. They really aren't, in the pure sense, farm land, although they are owned by farmers, and they are harvested; there are things that come out of the forests that we all use. I believe that change is going to eliminate what I call unnecessary red tape.

The current system — I have some personal friends who are assessors and my father-in-law is a retired assessor. I understand the basics of how the property assessment system has worked in the past. One difficulty we've had is that the rules are different in one part of a community from another; the book values used to establish property values differ. We all know that. If we could come to a common denominator across the entire community, even at the municipal base, it would accomplish a great deal, so that, as I said at the beginning of this, I don't end up paying more than someone else in my community for property of like value. I don't think that's fair. It happens. It's the reason, as I see it, for this legislation, and it'll fix it. I want to repeat myself, because I came here with that in mind, and that is, thank you very much. That's good work and I commend you for it.

The only other comment I want to make is that a great deal of time and effort is spent taking appeals to the Ontario Municipal Board on matters related to property tax assessment. The Ontario Municipal Board is a very busy place. For those who have had to do business with the board, you'll find it takes a very long time to be heard on a matter within the mandate of the board: an appeal on an official plan amendment or on a zoning amendment or on a plan of subdivision. It takes a long time to be heard. The delays are killers. Business stops because they can't get the approval they need. They may not get it, but if it takes 15 or 20 months or more to obtain the approval because of an OMB hearing, that ties up a great deal of money that could make the economy move forward.

If you're relieving the OMB, as I see it here, of this task of hearing assessment appeals, you're going to free up a fair bit of time. It follows, in my mind, that the board will then have more time to deal with the stuff that really matters; that is, the things that deal with the development of property, matters related to land development. If that happens, you will also have created a real advantage to the people who are builders and developers, to the municipality and to the economy, without necessarily contributing more money to the operations of the OMB. You will simply free up some time.

I don't think that the people who wish to be heard on a property tax appeal are going to be the losers because of that. My view is that there are provisions in here that will still protect property owners who are not happy with the property tax assessment they have. I believe that the removal of the OMB from that process is useful, not harmful, and will serve a very good purpose.

Those are my comments.

The Vice-Chair: Thank you, Mr Cook. That leaves us about four minutes per caucus for questions, beginning with the official opposition.

Mr Kwinter: Mr Cook, thanks for your presentation. I appreciate your comments.

One of the things you mention is that you felt this new law, Bill 106, would really equalize and make it a fairer assessment. Are you aware that there is a provision where municipalities have the option of using either current value or current use? What that really means is that you can take a look at a property and say, "The highest and best use of this property is this, and as a result, regardless of what it's being used for, this is what the assessment is going to be based on." The other one is current use, which says, "Yes, this property could be used for a much higher use and a higher value, but the particular use now is much lower and we're going to assess that."

You have a situation where, in some municipalities that opt for the current use, you'll be paying much less in your assessment than someone in another municipality where they have opted to do current value. You'll have properties that are virtually identical, virtually the same square footage, the same acreage, assessed at different levels. How do you feel about that?

Mr Cook: I am aware of that and I understand the basics of it. I live in the town of Lincoln. In that municipality the council will make that determination, as I understand it. I have access to them at the ballot box if I don't like what they're doing. I also have the right to go to a council meeting and be heard. I can get an audience if I'm not happy with the results of this.

I believe the elected officials in the two municipalities — let's pretend for the moment Grimsby and Lincoln — the two councils, are probably not going to create such a variation in the two systems as that business will move from one place to another simply because the taxes are so manifestly different. I don't think that's going to happen. I tend to think differences will occur between municipalities, and I expect that. I don't think the differences will be that great. I don't think the elected officials will allow that to happen.

I don't forget the fact that I, and the people who aren't happy with that system, can go to the council chamber and be heard. I think the elected officials will do what they do, and that is, if they hear enough legitimate concerns about that question, they'll deal with it and redress it. I believe they can make the distinction, but I think they can correct the distinction, and I don't see that to be a serious problem.

1050

Mr Kwinter: I should tell you that for several of the deputants who have come forward, particularly businesspeople, one of their grave concerns is that all politicians really respond to the people who have the power to elect them. Usually businesses don't have a vote and homeowners do, so they feel councils favour the homeowner as opposed to the business and as a result load up the taxes on the businesses, that they make these determinations based on that particular provision. As a result, you do have the situation where people say: "I'm not going to that municipality because the taxes are too high for business. We're going to go somewhere else."

The ability of the municipality to do that is a concern that's been raised by several people. I understand you're saying that you think politicians in various municipalities are going to do the same thing, but this act provides specifically that the municipality has the option: They can do one or the other.

Mr Cook: Mr Kwinter, I understand the basics of your comments, I understand the elements, but I think constantly of all the time and money and effort that's being spent by municipalities; the city of Port Colborne is a good example. They're spending large sums of money to attract business to their community because business is what makes the system run in the end and creates employment.

With due respect to your comments, I don't think there are too many municipal councils around — that I know of, at least, and I've been in the business I'm in for more than 30 years — that are going to knowingly and wantonly do something that's going to chase business out of the community. These elected officials are very mindful of the fact that they need the business in their community.

That's what makes me say what I said, that they're not going to let things get out of whack to the point that a business in my own community will move to the next community because the property taxes are out whack. I don't think that's going to happen. Too many dollars are spent by the elected officials on trying to attract the business into their community. I think that will be the levelling factor. That's my response to your comment.

Mr Marchese: Thank you, Mr Cook. You would appreciate Mr Kwinter's concern. You're saying, "It's not likely to happen." He's saying, "But it can." The legislation permits for those differences to take place, and politics of each community will vary depending on the culture of that particular area, so there's potential for these divisions to happen. You will be probably agree with that.

Mr Cook: Yes, sir, I do agree with that.

Mr Marchese: Mr Cook, you talked about your neighbour paying less than you do with a similar type of property, same building, more or less the same dimensions. You must have appealed your property taxes, knowing that, and you probably won.

Mr Cook: As a matter of fact, I did not, being the foolish man that I am.

Mr Marchese: Oh, you haven't appealed?

Mr Cook: I haven't appealed it. It isn't a truly significant sum of money, but it is a difference, and I haven't appealed it. I feel a bit like the cobbler's son. I help other people with their appeals and I haven't looked after my own business.

Mr Marchese: That's what I was thinking. As a consultant, I thought you surely would have had access to this knowledge and you would have done it already.

Mr Cook: I understand how that works and I simply admit I've done nothing with it.

Mr Marchese: Okay. The other question is the whole matter of impact studies. You probably are aware that the government has done impact studies and that there are impacts as a result of these changes, and some people feel they have a right to know what those impact studies indicate.

The commissioner on information and privacy just this morning has ruled that the Premier should release that information, and the Premier said this morning that he hoped the commissioner would change his mind. We feel, as a public, we have a right to have access to that information. Do you agree that those impact studies should be released by the government?

Mr Cook: I'd like to answer your question in a very, very general sense. I've worked in and for and around government all of my career. I believe that at no point in time should anything be withheld from the people who are paying for it. If we want the information, we should be entitled to have it without argument. I take very strong issue where my tax dollars are being used to create information, data, what have you, and I'm not permitted to have a look at the final product.

I must say, though, sir, that there are lots of times that the data should be released, but lots of times it can't be released because of other valid reasons and supportable reasons. I think we have to recognize that. Sometimes government feels it's necessary to manage the information database, and I think that's acceptable.

Mr Marchese: I agree. Mr Cook, you would also like to know the reason information is being withheld, as opposed to: "We're withholding it but we're not going to tell you why. There may be reasons but we're not going to tell you what they are." You'd like to know them, wouldn't you?

Mr Cook: I think that's a fair comment. Yes, I'd agree with that.

Mr Marchese: Thanks for coming, Mr Cook.

Ms Bassett: Thank you for your presentation. I appreciate the comments that you've made.

I just want to talk about the impact studies. As you know, the government wants to make sure the property tax reform is dependent on and based on new, 1996 assessed values. The decisions made by municipalities of course have to be based on accurate figures. We are in the process. We are right on schedule with our reassessment. That's why, in answer to my friend Mr Marchese, we have not been able to release figures, but by midsummer there will be figures there, and they will be up to date. It's no use giving you figures that are going to be out of date, and that's the reason.

Mr Cook: That's the very thing I was reaching for in my response to Mr Marchese, that there are times when information isn't available. Perhaps it's incomplete; the government hasn't done all the things they need to do with it before they release it. There are times it is not appropriate at that moment in time to release it. I understand that and I accept that.

Ms Bassett: Thank you very much for clarifying that.

Mr Rollins: I have a couple of things and one is about those impact studies and consulting fees. I think we've all sat and listened and watched governments consult and consult and consult and then not do anything. I think we might better go the other route and get something done. When those numbers are available, we will certainly make sure we share them with everybody.

Also, another change in the system is that we're going to probably change to a percentage of the assessment, which is a lot easier to understand than going to the old mill rate, because when you get your assessment you've only got 30 days to appeal it. "Well, my place is worth a lot more than $3,000." Then when you get your tax bill and you see it up by $300, "Well, why didn't I holler?" It's too late, and it just goes on like that. I think we'll put that into a place where it's more understandable to most of the people who get that tax bill. I think that's something we need to be able to put out to the public.

One other thing I can guarantee you is that the right to farm — maybe you were here for the previous presenter, Mr Augustine. I mentioned that it has already been studied. Harry Danford, the parliamentary assistant to Noble Villeneuve, the Minister of Agriculture, has just done a tour of the province on the right to farm, had hearings across the whole province on the concerns around the right to farm, with the smell of manure, air pollution, light pollution and dust pollution. Those are the things that, when a strip of houses is built in front of a farm and then the farmer starts putting on pig manure or something like that, the town councillor gets all those calls on.

It's the same with the use of farmers. We had one in yesterday that had a lot to do with poultry. He said he had a group of people in saying that it was inhumane to lock that little chicken or that little bird into a cage and look after it. He said: "Walk into my barn and hear them clucking, hear how happy they are, and we feed them and look after them well. If I don't look after them well, I don't eat well. It's my business; I've got to look after it right."

I think that right to farm is — well, as you say, it is; I'm pretty near positive that it will be in this spring.

Mr Cook: Again, I think it's going to cure a great many problems, so thank you for telling me about that.

The Vice-Chair: Mr Cook, thank you very much for your presentation before the committee today.

Mr Cook: Thank you for inviting me. I appreciate the opportunity to be here.

The Vice-Chair: Members of the committee, I'd like to introduce you to a couple more people who have joined us today. In the back of the room on our right-hand side is the mayor of the city of Port Colborne, Mayor Neal Schoen, accompanied by one of the councillors, Sonja Smith.

On behalf of the committee, I'd like to thank you both for letting us use this room today. It's been great for our purposes.

BUSINESS IMPROVEMENT AREAS OF HALTON REGION

The Vice-Chair: Our next deputation is the business improvement areas of Halton. If I misspoke your title, I'd ask you to please introduce yourselves and the group you represent.

Mrs Rachael Irvine: My name is Rachael Irvine. My compatriot here is Sandra Spudic, who is the manager of the Downtown Oakville Business Improvement Area. With your kind permission, I shall commence.

Good morning all, Mr Chairman, members of the standing committee, ladies and gentlemen. As I've already explained, my name is Rachael Irvine. I am here

this morning representing over 1,200 businesses operating through six different BIA groups within Halton region. These areas comprise one group each for the city of Burlington and town of Milton, and two each for the towns of Oakville and Halton Hills. As well as being a board member for the Downtown Oakville BIA, I also own and operate a retail store.

1100

While we of course understand the need for you to eliminate the business occupancy tax in its present form, we are deeply concerned about the proposed shifting of the BIA levy from direct pay by business owners to property owners.

In the beginning, BIAs, as a brainchild of the provincial government, were designed to counteract dying downtowns and older business sections all across Ontario. It was felt that by offering various incentives such as PRIDE, the program for renewal, improvement, development and economic revitalization, and CAIP, the commercial area improvement program, these business-oriented groups could commence to rebuild what were fast becoming ghost towns. As well, many of these areas contained historic buildings and were located usually in the heritage core of the community.

In addition, a 1990 document from the Ministry of Culture and Communications outlined the following points as part of Ontario's heritage goals:

(1) To foster awareness that our heritage is vital to our success as a people.

(2) To empower Ontario communities to undertake high-quality heritage conservation.

(3) To stimulate private sector involvement in conserving and developing Ontario's heritage.

Since the inception of the BIA, these business communities are now responsible for continued economic viability, preservation of historic landmarks, aesthetic improvements to the streetscape and organization of community events.

Today there are approximately 227 established BIAs in Ontario, ranging in business memberships from 25 to 2,000. BIAs are an organized means of representation for small business owners, with a voice in local affairs. As well, they are the only means by which mature commercial areas can sustain economic viability. BIAs in Ontario do not cost the government one red cent. In fact, they are completely self-funded.

We believe the proposed shifting of the BIA levy from business owners to landlords will most definitely impact BIAs. This change will afford property owners the same, and in some cases more, say in the running of the BIA than the business owners, who have supported it, incidentally, financially, materially and emotionally since its inception. Absentee and out-of-country landlords pose a grave threat, with little knowledge of or interest in a BIA's work. We believe these landlords may simply choose to opt out.

As a result of all this, many business owners who currently sit on boards of management could be bumped, thereby eroding the voice of small business operators. The bottom line is that business owners, who in fact pay the levy, should oversee the BIA operations, and not landlords.

Without the ongoing support and impetus of the BIAs, Ontario may once again witness the erosion of its downtown cores. Also, there would be loss of a primary tax base, loss of community jobs and a real estate recession. We believe that whereas less successful malls can be rezoned for industrial, institutional or residential uses, without a BIA, downtowns can die.

Following, we are presenting you with recommendations in two areas. I believe you have copies, and I will read them for the record.

The first area concerns Bill 106 and specifically relates in that bill to the BIA levy:

(1) That the province or the municipality continue to track assessments of businesses within a BIA's boundaries.

(2) That the BIAs themselves be allowed to offer assistance by tracking current tenancy within their boundaries.

(3) That the BIA levy remain a separate tax and apply to each business owner of a BIA.

The second area relates to the Municipal Act and has to do specifically, again, with BIA legislation:

(1) That legislation allow municipalities and BIAs to develop arrangements that best suit local circumstances.

(2) That local councils have the authority to decide with a two-thirds vote to maintain BIAs as they currently exist without vote of the property owner.

(3) That there be a transitional phase-in of legislation to flow taxes down to avoid bankruptcy by landlords and a withdrawal from the BIA membership of the tenant.

(4) That there be a two-year cooling-off period between attempts to disband a BIA.

In closing, we believe that continued support, understanding and consideration for BIAs would be further indication of the provincial government's commitment and focus on strong economic growth.

The Vice-Chair: Miss Spudic, any further comments from yourself?

Miss Sandra Spudic: Not at this time.

The Vice-Chair: Then we'll divide up the rest of the time among committee members for questions, beginning with the NDP, about four minutes each.

Mr Marchese: Thank you for coming, Ms Irvine and Ms Spudic. Thank you for the presentation. You've raised some important points that haven't been raised today. I want to tell you that there have been many good examples of business improvement areas across Ontario — I'm from Toronto — and we've had good work with a lot of them in terms of urban renewal kind of ideas that come forth from their work. So you're in good company with many.

One of the concerns we have around the business occupancy tax is that the whole amount involves $1.6 billion. That's a lot of money. In Metro it's $600 million that they would lose and have to recover in some way. You're worried about how that shifting will happen and you've raised some interesting points about some of the worries you've got about that, not just in terms of where the money's going to come from, but the effect it will have in shifting from those who rent and those who own property. I understand that.

My worry is that the government is shifting this whole responsibility down to the municipality. They've done the good deed and said, "This is a very outdated tax that was imposed in 1905," I think it was, and that might be a good thing, but they're leaving the municipality to do the dirty work of having to figure out where this money is going to be made up, because if it's taken away, you have to make it up somehow. So someone's going to be taxed in some way or other and the municipal politician is going to have, in my view, a hell of a time trying to make up that difference and trying to satisfy the various constituencies of that. You must believe that's a problem.

Mrs Irvine: If I may, we understand that somebody has to pay. I think we're saying here we'd like to continue to pay.

Mr Marchese: Yes, I understood that.

Mrs Irvine: I understand what you're saying in terms of downloading to the individual communities. If I may read something that was prepared by the town of Oakville: "That the assessment office continue to track tenancy and allocate realty assessment to tenants so that the municipality has the information required to build the BIA levies on the business operators on behalf of the BIAs." We're not asking for leniency on taxes; we're asking for the opportunity to continue to pay in the same fashion.

Mr Marchese: I understood you.

Mrs Irvine: And I understand what you're saying. It's a mammoth problem, which is why in the beginning I had acknowledged that we understand what you're doing and we concur, but somehow I would hope we could work together with the government to establish perhaps, in our opinion, a more fair way of handling this so that we don't run the risk of losing what we've worked for so many years to provide for the citizens in each area where a BIA is.

Mr Marchese: I understood you very clearly. I wasn't disagreeing with you, necessarily. I was just making the argument that government makes by saying: "This is outdated. We need to reform it." They seem to be committed to this, the elimination of the business occupancy tax. So you've got a problem already, because it means those people are not going to be paying it; somebody else is.

You're saying, "We don't mind it, because we think it's the right thing to do," but I think government has already passed you by in this regard and I'm not sure they are going to come back and say, "We'll leave it the way it was." I'm not sure how you're going to deal with that.

1110

Mrs Irvine: We are here this morning because we believe as Canadians we have the right to make a comment and we did apply to make a comment. In fact, we don't believe we've been passed by. We believe we have been afforded the opportunity to make some very succinct comments from 1,200 people who are saying, "Hey, maybe you haven't thought of this." That perhaps is the motivation of these comments this morning. The BIAs, I suppose, in the big picture of the provincial government would be a fairly small numerical amount, so we're here to say: "Hey, don't forget about us. We're taxpayers too. We'd like to continue to do what we've been doing." I don't know whether any of you have visited downtown Oakville or get the occasion to?

Interjection.

Mrs Irvine: Thank you, Madam. You will know the kind of money that is expended there. Certainly we are very active in all areas, not only the making of money: obviously streetscape, where we provide the plants, we provide the lampposts, we provide the Christmas lights, we hire people in the community and all these other sorts of things. We don't want to lose control of that.

Mr Spina: Thank you, Ms Irvine and Ms Spudic, for coming this morning. We appreciate it. I have been very involved with the BIA in Brampton. First of all, just before I ask my question, I want to assure you that our objective is that this be a fair property assessment bill.

I also wanted to assure you of a couple of things with regard to your recommendations. You asked that legislation allow the municipalities and the BIAs to develop arrangements that best suit local circumstances. That is clearly one of the things we are attempting to implement as part of this bill, so the municipality will have the authority to work with you more directly, without the provincial government interfering in that process.

Secondly, the business occupancy tax is separate from your BIA levy. Is that not correct? We are not intending to remove that BIA levy under this current legislation, from what I understand.

Mrs Irvine: It's my understanding, according to a document I have here, "transfer responsibility for payment of the BIA levy from the business owner-operators to the property owners."

Mr Spina: Where did that come from, may I ask?

Mrs Irvine: Proposed Legislative Framework, from the province of Ontario, I believe.

Mr Spina: That's a surprise, because I know we are addressing the business occupancy tax issue, but it was my understanding that the BIA levies would be considered separate.

The last point I wanted to make was that you're not being ignored as a BIA, or all the BIAs. We had half a dozen groups that pulled together for one presentation in Ottawa and put forward a very clear case. I had a little misunderstanding — not a misunderstanding; I guess it was something that was a little different in their presentation than you had. I just wondered if you could clarify it before I turn it over to the others. That is that you're asking that the property owners not sit on the BIA board of directors, if I understood you correctly, but on the other hand, these others insisted that the absentee landlords be part of the BIA in order to ensure that they have the interests of the BIA and the downtown area in mind, at the forefront.

Mrs Irvine: I think the issue is very basically that if you have one landlord owning six different properties or 10 properties or 20 properties in a downtown and your membership is perhaps 100 or less, the issue of who's controlling what could become a very acrimonious issue. Again, it depends on whether your rent is gross rent or net rent. If it's net rent, then of course the man at the top, as in landlord, passes on, passes on, passes on, which is fine, and as we understand it, based on this and the other information we were able to obtain, it would be okay.

But if that didn't happen or there was a gross rent in effect, then it would mean that landlords, if they wanted to and couldn't be bothered with the BIA, weren't civic-minded, were absentee — it would wipe us out.

You're familiar with BIA, so you'll understand. BIA is beyond having a budget which is approved by the membership and the town, of course. We operate 90%, if I can say, on volunteers. Are we going to get the same amount of input and volunteers if we've got kind of a divided BIA that could be voted out without our wanting it to be? I think we're looking for consistency here and the opportunity to go on building small-town Ontario the way that we have since the inception many years ago.

Mr Jim Brown: A very quick question. I noticed that you wanted a two-year cooling-off period before one can disband a BIA. I sense that some small guys might think that the BIA levy, which they can't opt out of, is just another form of tax, and a tax for something the municipality should be doing. When you said a two-year cooling-off period to disband the BIA, I am sensing from the fact that two years is a long time that maybe there are a bunch of people who might not want to belong. I'd like to get a feel for how many people have expressed that they don't like this levy and they'd rather do their own thing and that the municipality should be paying the bills.

Mrs Irvine: Not at all. The reason that was put in there is simply that — we had a number of meetings, by the way, to come up with a composite of everybody's concerns, which led to my presentation this morning, so there are quite a number of people's thoughts in here. One of the thoughts that came to the table when we had our last meeting, last Wednesday night, was simply that we don't have a problem in Oakville with it certainly, and I don't think anybody else did either, but it was felt that if that point wasn't made, dissenters in the future could possibly gang up and they could be going to council to try and disband it every six months. We felt that would be a frivolous waste of everybody's money and the municipality's time.

Certainly I can assure you wholeheartedly that among the groups that I represent this morning and in fact the entire region of Halton, to my knowledge, there is nobody who is trying to shut down their BIA. If they are, I'm certainly not aware of it.

Mr Kwinter: Perhaps I can just follow along on this discussion, because I think it's very interesting. The thrust of the government and the reason they are removing the BOT is that they found there are just too many delinquent tenants who take off, close down, and they have no way of collecting it, so municipalities are left holding the bag with a lot of unpaid business occupancy taxes.

The idea is to take that, transfer it to the landlord and put it really as a lien against their property by blending it in. But you raise the question — it's a very valid one — that lots of these landlords are offshore, foreigners or absent, whatever it is, and their main concern is getting their rent and having as little involvement as they can, just as long as they can be assured of their rent.

I think you're going to find it very difficult to get some landlords involved in the BIA, and the municipalities are going to say: "We're not getting this money; the money is going to the province. You go to the province and talk to them about the BIA." So you've got a situation where the actual merchants or businesses that are really interested in sponsoring and promoting their BIAs will participate, others won't, and it does leave you in a very vulnerable position. I understand where you're coming from, but I'm just wondering, is there some way that you can organize the various BIAs so that they are participating and there is some participation by the municipality, regardless of the fact that they're not collecting the business occupancy tax, because of the value they get from the commercial activity that's generated by the BIAs?

Mrs Irvine: I'm taking a deep breath. If you go through the comments that we've made this morning again, I think it takes about four readings before you'd get everything that we tried to say in about a seven-minute period.

I believe the municipalities would like to have the authority to collect that business tax, the BIA part. That's what I think. I can understand what you're saying certainly, and we're so scared I can't tell you. We're so scared that we're going to lose everything that we've spent so much money on and given of ourselves to for so many years.

1120

For example, already in downtown Oakville in our BIA, which incidentally has over 350 members within our area, our manager, Sandra, and her staff take an active hand in making sure that we know who the tenants are and things like that. Perhaps, Sandra, you could explain very briefly how your office goes about tracking tenancies and things.

Miss Spudic: Essentially it comes from walking around: going into the buildings, walking into people's offices, introducing ourselves and taking down the information. That's basically how we keep track.

Mr Kwinter: What I am trying to get at is that maybe if you restructure to the point where it really becomes an association where all of the members of that BIA pay an annual association fee and you get a municipal subsidy as well so that the BIA can function and do its Christmas decorations and do its plantings and all that, so that it isn't tied directly to a tax, and as a result, you would have greater control — I don't know if that would work or not.

Mrs Irvine: Whatever form it comes in, I think it's our feeling and our belief that it should come from the municipality in some form, but it cannot be, "If you want to." I think we've all had experience with business associations that said, "Throw in 50 bucks if you want, and if you don't want, that's okay too."

Mr Rollins: It doesn't work.

Mrs Irvine: No, it doesn't. This is something that we're trying to preclude. It was in downtown Oakville long before BIAs were thought of, and I understand it was rather a disaster. It has to be consistent, it has to be ongoing, it has to be fair, and in the final analysis, whatever can be established to make sure the business owners are the masters of their own fate. I understand what you're coming to and I understand what your thoughts are, and we talked about a lot of that as well.

The Vice-Chair: I thank you, Mrs Irvine and Miss Spudic, for coming down to Port Colborne today for your presentation. Have a safe trip home.

Mr Colle: On a point of order, Mr Chair: I wondered if we had a copy of that document that Mrs Irvine referred to for our information.

The Vice-Chair: If you want to submit the document to the clerk, please do so.

Mrs Irvine: Which? The one that I read that came from the government?

Mr Colle: The reference, yes.

Mrs Irvine: Sure.

The Vice-Chair: The clerk will collect that document as part of the presentation from the BIA group. Again, thank you for your time. Good evening.

WILLIAM BRUNT

The Vice-Chair: The next deputation is Mr W.R. Brunt Jr. Mr Brunt, welcome to the standing committee on finance and economic affairs.

Mr William Brunt: At the outset I would like to thank the committee for coming to the boonies, so to speak. I am happy we finally have a government that is prepared to get out of the ivory tower at Queen's Park and is prepared to travel around the province and obtain the views of citizens in all areas.

I believe the present government in Ontario deserves a bouquet for tackling an area that is long overdue for revision. Previous governments have recognized the need for changes in municipal taxation but have not had the intestinal fortitude to do them.

I have come to believe that a good law is probably one that pleases no one. That may sound like a contradiction, but legislation that is popular with one group and hated by another is probably slanted too much to one side. When everybody is unhappy, you probably have a bill that is positioned correctly between the opposing views and will be good for the province.

A classic example of this philosophy is the GST, which was universally hated. It corrected the problem with the manufacturers' sales tax which it replaced. The manufacturers' sales tax applied to Canadian-made products but did not tax imports. While opposition parties condemned it, in the end no government will abolish it. They may change it in name, but that is really no change at all.

Now to the subject at hand, Bill 106, which makes changes to the way municipal taxes are levied. There are several good features in the bill. The first good feature is the repeal of the business occupancy tax. This tax was paid by business owners and not levied on the property. It was a problem for municipalities to collect. Many businesses went into arrears on this tax on their way to bankruptcy and left municipalities with unpaid taxes. This just shifted the burden to the remaining municipal taxpayers.

I am no municipal tax expert and I will concede that municipal taxes, like income tax, are becoming a field for experts. This means that all you're getting today are the views of a reasonably intelligent citizen, not an expert. I have yet to find someone who can explain to me the logic used to set the rates for the business occupancy tax. It has been around since 1905, and I believe the rationale for it has been lost years ago.

Another good feature of the bill is the setting up of property classes. This will provide municipalities with the flexibility they need in levying their tax base. By establishing these property classes, it is then possible to do other things.

One of the things possible under the property class is to get rid of some duplicate effort. I have long objected to programs, such as the old-age pension system, where the government spends money to issue a cheque to everyone and then spends more money collecting it back from the more fortunate.

Collecting full taxes on farms and then sending 75% back as a grant was a waste of time, effort and money. Under Bill 106, farmers will just pay their municipal taxes at the reduced rate and no grant will be received. Their capital will no longer be tied up in a bureaucracy that serves no one, except perhaps CUPE. Putting woodlots in with farms is correct, as trees are just another crop. Again under the property classification system, conservation areas will be exempt from taxes, rather than having municipalities collect the tax and the government paying it back to the conservation authorities.

A uniform assessment system across the province is a fair scheme for everyone. Using current value assessment is as fair an approach as any. To anyone who has undergone market value assessment in recent years, there will be little change.

The assessment appeal process has been streamlined in a logical manner. By extending the period for an objection, it provides time for the property owner and the assessor to review the assessment and reach an agreement. It is less costly to everyone if disagreements can be settled at this level. If agreement cannot be reached between the owner and the assessor, then an appeal process is provided.

The appeal process has been modified to keep assessment disputes out of the Ontario Municipal Board and the courts. The courts can still be used to rule on a point of law, but this is different from having to rule on other matters as well. Our judicial system is facing enough of a backlog as it is.

1130

As I understand it, current value assessment is defined as the value a property would have in an arm's-length transaction between a willing buyer and a willing seller. If this is truly the case, then anyone who feels that his current value is too high should be prepared to sell the property on the open market at that price.

An interesting way of settling a disputed current value would be to put the property on the market for 90 days at its assessed value, and if a buyer is found for the property, the owner would have to sell. If a property owner was not prepared to do this, then he would have to accept the assessment. In the case of multiunit, commercial and industrial property, the period would have to be longer, say six months, because of the more limited marketability of such properties. If a property did not sell, then the assessment would be reduced to a figure at which the owner was not prepared to put it on the market. If it sells then, the current value is established.

In addition, sales of properties should be used to update the current value assessment. If a property sells for less than its current value assessment, its assessment should be reduced; conversely, if it sells for more, its assessment should be raised. How would the assessment office market properties, as we certainly do not want the government to get into the real estate business? Properties could be assigned to real estate companies in the area on a rotational basis to those firms that wanted to try to market the property.

The only drawback to current value assessment is that it discourages an owner from improving or maintaining his property. Improving the property raises the assessment. Maintaining the property maintains the assessment. Letting it go to ruin lowers the assessment, and hence the municipal taxes, once the rolling averages start.

I do agree with the provision allowing municipalities to grant relief to seniors and the disabled for any tax increases that may occur from the current value assessment. The increase can be deferred, with the taxes and interest accruing until the property is sold. It does have the drawback of tending to trap these people in their existing properties. Perhaps there should be a provision for these people that allows them to sell one property and to use the proceeds to buy another property, with any surplus on the sale being used to pay down unpaid taxes and interest. The remaining unpaid tax and interest would then accrue on the new property.

The requirements of seniors and the disabled may change as they grow older. Another factor the bill does not address is what constitutes a low-income senior. The rules should be the same across the province. Perhaps the criteria could be that any senior receiving the old-age supplement would be considered a low-income senior. For disabled people, the same criteria could be applied to their income. That is, if they were a senior and their income is such that they would qualify for the old-age supplement, then they would qualify for relief.

Finally, it must be recognized that the cost of living is not the same in midtown Toronto as it is in Crystal Beach. Therefore, a factor needs to be applied to the old-age supplement figure to adjust for the region in which they live. This adjustment could be based on the cost of the average home in, say, Niagara region versus the average home in Toronto. Just some radical ideas to promote thought.

Since some assessments are many years out of date, the feature that allows for significant increases in assessment causing large tax increases to be phased in is a good one. However, I believe it should only apply to the majority of homeowners and small commercial or industrial operations. It should not apply to residences that cost over $500,000. If you can afford that kind of home, you should be able to absorb the tax change. In commercial and industrial properties, a limit could be set based on net profit. If your net profit is over a certain figure, you do not get the privilege of having the tax increase phased in. You may say this is not fair. Anyone who thinks taxes in Canada are fair is dreaming. Canada taxes its citizens based on their ability to pay.

On the subject of allowing different tax rates on the same class of property, I find I have very mixed emotions. I would have thought the difference in current value assessment would have provided the needed differential required between small commercial offices and strip malls and the large commercial developments that may be subject to a higher tax rate. As I just said, I must be dreaming to think taxes would be fair.

I am glad the bill recognizes the importance of the development of Ontario airports. The federal government is in the process of getting out of the airport business. When the federal government owned the airports, the municipalities could not tax the land, as it was crown land. Since municipalities did not receive any municipal taxes, the federal government adopted a policy of giving the municipality a grant in lieu of taxes. With the airports being sold at a nominal figure or given to airport authorities, it is virtually impossible to set a current value assessment on them. In Canada, there is not a market in airports to establish an assessment. I am sure some municipalities would be willing to try, but if they did, we might not have very many airports.

The idea of setting their municipal taxes at the same level as their grant is a good one. What is not clear to me is whether this levy of tax is in perpetuity or if there is an adjustment involved to take care of inflation and the possible growth that may occur at an airport. I would suggest that the taxes could be set at the grant level for, say, three years and then they would increase based on the number of passengers the airport handles or, in the case where there are not many commercial flights, it could possibly be based on the number of flights in and out.

This leads me to an interesting subject that is very contentious at the moment in Fort Erie and the municipality of Niagara. Between Fort Erie, Ontario, and Buffalo, New York, we have a bridge that spans the Niagara River. If anyone ever wonders what that bridge contributes to the Ontario economy, then one should look at the amount of trade that crosses the bridge. The bridge does more for the economy of Ontario than many of the airports in the province. The bridge, with its associated requirements, is by far the largest employer in Fort Erie. Without the bridge, customs and immigration, the customs brokers and the trucking facilities, Fort Erie would become a ghetto of unemployment.

However, this bridge is different from a lot of other bridges in this sector. The bridge is operated by the Buffalo and Fort Erie Peace Bridge Authority, which was formed under a charter issued by New York state and the federal government. While many of the international bridges between Ontario and the United States are under a provincial charter and hence fall under provincial law, the Peace Bridge is an exception. For many years the lands used by the bridge authority were treated similarly to crown land, and the bridge authority gave the town of Fort Erie a grant in lieu of taxes. In order to keep a harmonious relationship on the board of directors, composed equally of Americans and Canadians, a similar grant was given to the city of Buffalo. Now the town of Fort Erie and the region of Niagara want to assess the bridge property and levy taxes on it. This poses some interesting problems.

The first practical one is, how do you set a current value on bridge facilities? I do not know of any that have been bought and sold in recent years in Ontario or elsewhere.

1140

The Vice-Chair: Mr Brunt, you have about a minute left, if you wanted to wrap up your comments.

Mr Brunt: Basically what I'm asking for here is: The town and the region are proposing to assess and tax the bridge, and if they do this, they will basically put the bridge out of business. The town and the region have gained the employment and the benefits of the expansion of bridge facilities on the Ontario side, and therefore I think an amendment should be made to the act to consider the bridge the same as an airport. Thank you.

The Vice-Chair: Thank you very much, Mr Brunt. A very thorough presentation, a lot of suggestions, and the committee definitely will benefit from it. I regret it's exhausted our time so we don't have time for questions.

For the interest of the committee members, we will be hearing from the Buffalo and Fort Erie Peace Bridge Authority at 1:20. I think it's the first time that the bridge issue has been introduced, so we'll hear more on it later this afternoon.

TOWNSHIP OF WAINFLEET

The Vice-Chair: Our next deputation is Mr Andy Koopal, representing the township of Wainfleet. Welcome to our committee. We have 20 minutes together.

Mr Andy Koopal: Thank you, Mr Chairman, fellow politicians. I will keep my comments brief and to the point.

Tax reform is overdue, and as a dairy farmer I am pleased that the educational taxes will be removed from farm land. This is what the federation of agriculture lobbied for for many years. Also, I agree with the government that streamlining things is important. However, there are still a few questions which have be answered before I can give my blessing to this act.

To put the rate at 25% of the residential rate seems to be fair to me. Is this 25% figure a guarantee for us for the future, or can future governments change it overnight?

Now as a politician: Who is going to pick up the shortfall to the municipalities? For instance, in Wainfleet's case, the property tax rebate paid to farmers in the year 1994 was $570,000. If and when farmers are going to pay the township 25% of the residential taxes, who is going to pay the township this $570,000 it will not have coming in? Do we have to raise the residential taxes to cover this shortfall? If so, the residents will be on our backs. They don't want to have to pay for it. Also, if the residential rates go up, so will the 25% portion on the land. Are we being taken for a ride?

Our municipality does not have any more reserves to dig into. We run a lean ship, especially next year, when we are going to lose another $405,000 in block grants from the province. Or is this the province's way of killing/starving the small municipalities? Bigger is not always better. In our township there is no place for user fees unless we can put a tollbooth on Highway 3 to raise funds.

I hope you can provide me with some answers today. Thank you very much for your time and coming to Port Colborne. Respectfully submitted by Andy Koopal.

The Vice-Chair: Thank you very much, Mr Koopal. Your position with the township of Wainfleet, for the information of the committee?

Mr Koopal: Alderman.

The Vice-Chair: This leaves the members of the committee with about four minutes per caucus for questions, beginning with the government side.

Ms Bassett: I have a quick one before my colleagues, who sure want to talk. Thank you very much for your presentation. It's wonderful to be here in Port Colborne.

I just want to say that, as you know, people have been lobbying for ages for us to remove the education tax from residential property, and with the farm land paying now 25% of the residential tax, as you say, you're worried how the municipalities are going to pick up the shortfall. If you can't make any savings, which, as several people have pointed out, they may not be able to do, the province is having a $1-billion annual community reinvestment fund that will be divvied out annually among the municipalities that need it. I want you to rest assured that that will be there. I'll turn it over to my colleagues.

Mr Rollins: Thanks for your presentation. I know we've had quite a few with a farm background appear before this hearing, most of them with the same concern. It would be nice to be able to write in stone that the 25% will always stay there, but I think you're asking for a day's rain and sunshine and everything else at the same — a guarantee, and it can't happen.

However, as my colleague Ms Bassett said, there is that fund particularly for municipalities that have a large portion of their assessment based on rural farmlands, and it will be able to allow them to readjust that income. However, there is a legitimate concern that there is going to be a shortfall for those communities or those municipalities that have a lot of assessment in the farm land. I think that's one more reason that we've got to look at some type of amalgamation, to make sure we can get a big enough picture in there so that then those amalgamations can hopefully have some more savings to pass down.

I know each township and each municipality comes up and says, "We're mean and lean now." But over the last two years, as well you know, you look across this province of ours and there are a lot of municipalities that haven't increased taxes and yet they have been able to sustain the cutbacks in those grants. I know it's getting down to the part of doing things a different way, but I think that's what has to be done.

Mr Koopal: In answer to your comment, for Wainfleet we kept our taxes at zero for the last six years for our portion. The school board and the region is a different story.

Amalgamation: Who wants a township that's going to lose this kind of money? We work as partners with Pelham and with Lincoln, and maybe in the future we could join as municipalities, but we don't save a whole lot of money because we as politicians don't make the $70,000 that the big cities do. We make only $7,000, so you don't save a whole lot of money.

Mr Rollins: No, you don't on savings for yours, but you do on maybe your municipal buildings and some of the other shared resources that you can share with your neighbours to save that. But I think it's an ongoing thing that we've got to continue to look at ways of saving, because I'm sure that like a lot of other people, you don't want the taxes to go up. Most people don't. Thank you for your presentation.

Mr Colle: I think you represent literally hundreds of towns and cities across Ontario with the same problem. You have been mean and lean and you've not raised taxes in six years, and now all of a sudden you're going to have to make up $570,000 overnight. What the government has said to you is that they have this, as I call it, $1-billion begging fund. Why wouldn't they just do it right and allow you to govern as you have been governing? Instead, they are going to have you go on your hands and knees every year begging to meet what criteria? Have they given you criteria yet in your town in terms of how you will access the begging fund?

Mr Koopal: No, they haven't, and that isn't in the legislation either. That is where we have so many questions.

Mr Colle: I guess what it's going to be like is, if you behave and if you meet certain government criteria and if you amalgamate and if you put up tollbooths and if you put up user fees, then I think they'll let you access the begging fund. That is what I think the government is setting you up for.

As you know, the government's basic other agenda — you mentioned it — is they want big governments all across Ontario. They don't have any more room for the Wainfleets of this world. They want big governments so they can download and unload their responsibilities because, like you said, why would another municipality, adjoining municipality, pick up a municipality that's got debt problems or got financial shortfalls? What kind of candidate, what kind of marriage would that be? Who would want to get married with that municipality?

Have you looked at alternatives? Has the government given you any ways of making up this shortfall? Have you looked at ways? Any idea as to how you're going to do it?

Mr Koopal: We don't have any ideas. The only way is to raise taxes unless they are going to give us a part of the school board taxes that they told us they're going to scrap. The province is going to look after the school boards, so maybe we can dip into that fund.

Mr Marchese: God bless.

Mr Colle: Have you had any discussions? Has the government sent you any details on the impact of the changes on your municipality in terms of the dollars and cents as a result of all the changes?

Mr Koopal: No. That is the whole trouble with this bill. I talked to Tim's office many times this week trying to find information to back things up. They haven't been able to find it either for me.

Mr Colle: Basically they're saying, "Trust us."

Mr Koopal: This meeting is to make some changes to this act, so hopefully —

Mr Colle: I thank you for bringing that forward, because I think you're speaking on behalf of so many small communities across Ontario who find themselves in the exact same circumstance you do. Thanks for coming.

Mr Marchese: Thank you, Mr Koopal, for coming. You've raised many concerns that other people have raised before too. The difference between you and Mr Augustine is that he appears to be very optimistic about finding a solution. I am less optimistic because I see the functioning of the government here and I don't see the answers coming in the way that some of you are optimistic about. You've been looking for answers and you're not getting them.

Ms Bassett has tried to reassure you about this $1-billion fund. I know that you know that it's there, at least they say it's there, but some of you don't feel that the money is going to be forthcoming even if you beg. I'm not quite sure whether or not that's really there. You're probably worried about that; is that correct?

Mr Koopal: We are worried about it, yes.

Mr Marchese: You're happy about the fact that the government has taken the education portion out of property taxes. They're happy too. In fact, when they talk about it, they say — I remember the Minister of Municipal Affairs saying that seniors are going to be really very happy that we've done that, but he forgot to say in the same breath that, as he's taking that away, he's about to give you welfare, he's about to give you housing, he's about to give you child care, transportation and so many other things, ambulance services, nursing homes, long-term care. You're happy because your association has long advocated for this, but all of a sudden they bring to you a whole whack of other services that you're going to have to pay. How do you feel about that?

Mr Koopal: Scared. Some of the services will be provided by the region, like welfare is looked after by the region of Niagara, so that's not a direct concern to Wainfleet. As chairman of finance, I know what the financial picture looks like in Wainfleet. Even this year, we tried to keep a zero budget but it's going to be awful tough.

Mr Marchese: I'm sure it's going to get tougher as you go along.

Mr Koopal: It's going to be tougher. That is why I hope Ms Bassett's comment will be written in stone that we can tap into this $1-billion fund.

Mr Marchese: I hope you can too. Thank you for coming.

The Vice-Chair: On behalf of the committee, thank you, Mr Koopal and the township of Wainfleet for appearing here today. Have a good afternoon.

Mr Steve Gilchrist (Scarborough East): Mr Chair, just before you adjourn, a point of order. Very briefly, the clerk has been kind enough to hand out a copy of the sheet to which the presenters from the Oakville BIA referred. Mr Colle, when he made his request, characterized it as a government publication. I would suggest there is no reference anywhere on there that it was published by the government; in fact, just the opposite. It appears to be a third-party compilation, summary, of a number of bills that are currently before the Legislature. I just want the record to reflect that. Thank you.

Mr Colle: I'm just not sure. Listen, I heard from the deputant that it came from some kind of government —

Mr Gilchrist: Mr Colle, she did not say that. She did not know where she —

Mr Colle: Okay. Could she clarify where it came from then? That's all I want to know.

The Vice-Chair: We could check Hansard when it's published to see what she said, but the deputations can bring forth whatever material they wish for the committee's benefit, and that's why I asked them for a copy.

Mr Colle: It's just that Mr Gilchrist implied that somehow I was trying to —

Interjection.

Mr Colle: I just got this from the deputant. I just wanted the information. Where did it come from?

Mr Marchese: In Mr Colle's defence, he simply asked for the document that the deputant introduced for the record. She indicated it might have been a government document. We don't know. Now we have it and we're looking at it. We don't know what the source of that is.

Mr Gilchrist: I merely sought to clarify the record. Mr Colle had characterized it as a government document when he made his request. Thank you.

The Vice-Chair: All members of the committee now have a copy of this document from the deputation.

Any further business before we adjourn for our lunch? Seeing no further business, this committee is recessed for lunch. We will come back at 1:20 pm.

The committee recessed from 1155 to 1321.

BUFFALO AND FORT ERIE PUBLIC BRIDGE AUTHORITY

The Vice-Chair: Our first presentation this afternoon is the Buffalo and Fort Erie Public Bridge Authority. Before you begin, please introduce yourselves for the purposes of Hansard and then begin when you're ready.

Mr Ron Lampman: Thank you, Mr Hudak. It's Ron Lampman. I'm secretary-treasurer of the Buffalo and Fort Erie Public Bridge Authority, better known to residents of the Niagara Peninsula as the Peace Bridge. With me today I have Thomas Richardson of the law firm Sullivan, Mahoney, and we'll be doing the presentation. I believe the briefs have been distributed to all of the members of the committee and we'll proceed in accordance with our plan at the present time.

Mr Thomas Richardson: Mr Chairman, there are two booklets. The thinner one is entitled "Presentation to the Standing Committee" and the thicker one, the one with the tabs on the side, is the exhibits, which I'll refer to during the course of the presentation, if I could.

The purpose of this submission is to address two matters which do not presently appear in Bill 106 but which are directly related to the assessment of land and to municipal taxation as they affect international bridges in the province of Ontario generally, and specifically the Peace Bridge located in Fort Erie.

We wish to address two issues. The first issue is the assessment of international bridges in the province of Ontario, commencing on January 1, 1998. The second issue is outstanding tax arrears presently owed by the Peace Bridge and other international crossings to the local municipality in which the structures are located.

I know neither of these issues are in the act presently. We have, as I will indicate in a minute, an anticipation that at least one of these issues may be addressed by the government through amendments to this legislation and for that reason we wish to address you.

The second matter, the assessment and taxation, we understand is still a matter the government proposes to deal with before January 1, 1998, so we've taken this opportunity, if we might, to speak to you briefly about that as well.

I'd like to address first, then, the assessment of international bridges. By letter, dated November 8, 1996, Mr David Crombie, chair of the Who Does What advisory panel, reported to the Honourable Al Leach, Minister of Municipal Affairs and Housing. His letter is contained in tab 1 of our exhibits. I know the committee is very familiar with it. The portion dealing with international bridges and tunnels is found on page 5.

The panel acknowledged the following:

(1) Existing inconsistency in taxing practices with respect to the international structures;

(2) Problems associated with the enforcement of tax obligations. The Municipal Tax Sales Act cannot be applied to an international bridge as it falls under federal jurisdiction; and

(3) Federal cooperation is essential to enforce payment.

The panel made the following recommendations:

(1) That the rental income and bridge tolls be used to set the assessed values of the related land, buildings and bridge span or tunnel and thereby subject to full assessment of property taxation;

(2) That international bridges and tunnels remain in the commercial property class.

The recommendations of the panel have not been incorporated into Bill 106. The method of assessment and taxation of the international structures continues to be a matter of deliberation by the provincial Ministry of Municipal Affairs and Housing, the Ministry of Finance, the federal Department of Transport and the various authorities operating the international structures.

The report of the Crombie panel does not refer to the circumstances which, in the opinion of the Buffalo and Fort Erie Public Bridge Authority, should be taken into account in any determination as to how the bridge structure will be assessed.

First, the structures are not subject to taxation on the American side at all. Secondly, the facilities to house the Canada Customs and Canada immigration operations at the Peace Bridge, as is true in most other facilities, are provided without rent; that is, these facilities must be provided by the bridge if it's to operate as an international structure, but it receives no rent for those structures. So we find ourselves in the position of being taxed for a structure that we must provide for nothing.

On the American side, the reverse is true: While they do not pay any tax for the municipal structures, the federal authorities pay rent to house the American customs and American immigration facilities. I can tell you that this anomaly will become even more striking shortly.

As you may be aware, in a protocol signed by President Clinton and Prime Minister Chrétien last week, the American commercial customs operation at the Peace Bridge, that is, the portion which deals with all these

transports you see going up and down the highway, is to move to Canada. We anticipate that the Americans will pay rent for their facilities in Canada; the Canadian government does not. We'll then be faced with that anomaly in terms of the taxation which I'm trying to address here today.

In addition, in the instance of the Peace Bridge, the legislation which creates the authority states that the bridge is subject to municipal assessment and taxation on the Canadian side. It also provides that the Peace Bridge must pay to the American authorities an amount equal to the amount of the municipal tax paid in Canada. These are specific provisions in the Peace Bridge legislation which do not apply to other bridges along the Niagara River. Consequently, the tax liability of the Peace Bridge must be doubled in order to determine the true impact on the finances of the bridge authority.

The provisions of the Buffalo and Fort Erie Public Bridge Authority Act are not, however, the only inequity, as referred to by Mr Crombie. The International Bridges Municipal Payments Act, which I've included at tab 4, provides a specific method of calculating taxes which applies to the three bridges of the Niagara Falls Bridge Commission and to the Blue Water Bridge in Sarnia. The bridges of the Niagara Falls Bridge Commission, as you'll be aware, are the Queenston-Lewiston Bridge, the lower bridge or the Whirlpool Rapids Bridge, and the Rainbow Bridge. The tax on all of those bridges are regulated by this act passed in 1981. In the schedule, you will find there are formulas which fix the amount of assessment for taxation purposes and how the amounts will increase. The results are shown in tab 5 and I wish to refer to those for a moment.

In 1995, the Queenston-Lewiston Bridge, which is a bridge, I would say, 30 years younger than the Peace Bridge, paid taxes of $133,000. The Peace Bridge has negotiated an amount with the town of Fort Erie at $296,000. If we paid the amount of taxation generated by the assessment proposed by the province, we would have paid $1,073,000. That is 10 times what is being paid on a bridge half the age of the Peace Bridge down the river.

In 1996, with the implementation of market value throughout the Niagara region, the Queenston-Lewiston Bridge tax went down to $80,000. The Peace Bridge has paid $241,000 to date, and on our assessment we would have paid $830,000. The actual assessment for those years, as I'll indicate to you in a moment, is the subject of appeals before the Ontario Municipal Board, but I use those figures to indicate the inequity which applies locally, where one of the four bridges used in international trade on the Niagara River is assessed to pay taxes substantially higher than those that are fixed by provincial legislation in the International Bridges Municipal Payments Act.

1330

It has been the position of the international crossings represented by the Niagara Falls Bridge Commission, the Blue Water Bridge Authority, the International Bridge Authority in Sault Ste Marie and the Buffalo and Fort Erie Public Bridge Authority that all of the structures represented by these authorities should be included within this International Bridges Municipal Payments Act. Only in this way will the Peace Bridge then be on an equal footing with its three sister bridges lying downriver on the Niagara River as well as with the Blue Water Bridge in Port Huron and the International Bridge at the Sault.

The Buffalo and Fort Erie Public Bridge Authority agrees with the statement of Mr Crombie that there are inconsistencies in taxing practices which cause concern for both municipalities and bridge authorities. Any resolution, in so far as the Peace Bridge is concerned, must also take into account the special circumstances of the legislation which created the Buffalo and Fort Erie Public Bridge Authority and which obligates the authority to pay to American authorities an amount equal to the taxation imposed on the Canadian side. To our knowledge, this provision is not applicable to any other international crossing in Ontario.

The Buffalo and Fort Erie Public Bridge Authority also acknowledges that the proposal to include the structures of the commissions and authorities named above in the International Bridges Municipal Payments Act may not provide a province-wide solution. If the government is not prepared to pursue that resolution then we strongly urge that the industry be consulted at length before legislation is introduced to address the assessment and taxation of these international structures. These structures play a major role in the international trade between Canada and the United States. Any resolution of these issues concerning assessment and tax, we submit, must take into account the vital role which these structures play.

I'd like to provide to you some statistics with respect to the Peace Bridge to exemplify that vital role played by these structures. The Peace Bridge was constructed and is maintained with no public funds. The Buffalo and Fort Erie Public Bridge Authority is a non-profit corporation and must fund its work through the issuance of bonds and the payment of those bonds through toll and rental revenues. The Peace Bridge represents, if I might, a form of privatization that's now over 60 years old; privatization in the sense that a public bridge is provided, as you see in the name of the authority itself, and maintained without government funds of any kind.

The Peace Bridge is a vital international link between the United States and Canada. The Peace Bridge is one of the busiest Canada-US border crossings, second only to the Detroit-Windsor border crossing.

According to the Assessment of Border Crossings and Transportation Corridors for North American Trade, a report to the American Congress in 1992, more than $20.8 billion worth of trade crosses the Peace Bridge each year. I've included the page from that report at tab 6. That report was dated 1992. It was projected that by the end of 1996 the trade would increase to $30 billion annually or more than $80 million per day crossing that bridge.

The total value of land trade across the border between Canada and the United States in 1992 was $150.3 billion. This represents 71.4% of the total North American trade between Canada, the United States and Mexico. Of the $150.3 billion in trade which crossed the Canada-US border, $104.4 billion, or 69.4% of the Canada-US trade, crossed in Ontario. Ontario represents almost 50% of all of the North American land trade.

In 1992, $35.8 billion worth of trade, or 23% of all land trade, crossed on the Niagara Frontier; that is, the four bridges that I've referred to. This amount represents 16.9% of the total North American land trade. Of the $35.8 billion worth of trade, $20.8 billion, or 58%, crossed at the Peace Bridge. The trade crossing the Peace Bridge represents 13.8% of all land trade across the Canada-US border.

In 1996, the Peace Bridge carried 61.6% of all commercial traffic on the Niagara Frontier. In other words, our share is increasing from the figures we've given you in tab 6. In 1996 alone, the commercial traffic increased by 5.3%; between 1990 and the end of 1996, commercial traffic had increased by 43%. In 1996, we estimate 1.207 million trucks will use the Peace Bridge. We estimate that this volume represents the $30 billion which was projected back in 1993.

In 1992, the Niagara Frontier US-Canada Bridge Study was prepared by Parsons Brinckerhoff for Transport Canada, the Ministry of Transportation for Ontario, the New York State Department of Transportation and the New York State Thruway Authority. The final report made the following conclusions:

"The recent economic growth of the Niagara Frontier is linked very closely with international commerce. Continuing economic growth is tied to accessibility and reasonable travel times across the border and on the regional highway network serving the bridges.

"Several factors related to recent growth have had significant influences on bridge traffic volumes. These factors include:

"The United States-Canada free trade agreement;

"The continued rapid growth of Toronto and its surrounding Metro area that has stimulated economic development activity in southern Ontario and western New York;

"Regulatory reform in the transportation industry; and

"Consumer price differentials."

In the last five years, the Peace Bridge has expended nearly $75 million on capital projects. Two of these projects were the commercial vehicle processing centre and the Canada Customs facility. Both were designed to expedite the flow of commercial trucks across the bridge. It has recently been announced that the American Customs commercial facility will be moved to Canadian soil for the same reason.

The Peace Bridge has recently announced that it will twin the facility by the construction of a second span, thereby increasing its capacity from three lanes to six lanes. Provincial traffic projections indicate that this capacity will be required as early as the year 2001; that is, four years from now. The present estimate of the cost to twin the bridge is $64.5 million. An additional $17.1 million is to be spent redecking the existing structure.

In determining the method of assessment and taxation of the international bridges, there must be recognition of the important role which these structures play. The Peace Bridge is a non-profit corporation providing a vital link between Canada and the United States. The method of assessment and municipal taxation imposed upon it will play a major role in determining whether the Peace Bridge authority can meet the demands anticipated to be made upon it.

Our request to the committee today is this: That before any legislation is introduced with respect to the assessment and taxation of international bridges and tunnels, members of the industry as well as the federal department of transport be consulted in order to ensure that the legislation is fair to the authorities who are attempting to deliver a public service without publicly funded cost.

With respect to tax arrears, I'd like to make these brief submissions. As acknowledged in the report of Mr Crombie's panel, the collection of tax arrears from international bridge structures is problematic. Tab 7 is a news clipping taken from a St Catharines newspaper indicating that the township of Edwardsburgh recently wrote off nearly $1 million in tax arrears as it was incapable of collecting those tax arrears from the Ogdensburg Bridge.

In Fort Erie, the Peace Bridge authority and the town of Fort Erie historically entered into an agreement each year fixing the amount of taxation. For the years 1956 through 1976, these agreements were authorized by provincial legislation. I have included one example at tab 8. This is the last act that was passed as the Town of Fort Erie Act. The most recent Town of Fort Erie Act set out the method of establishing taxation for the years 1970 to 1976. With the expiration of this legislation, the town and the bridge authority continued to negotiate agreements up to and including 1994. At tab 9 I've included the agreement for 1994 which reflects the type of agreement entered into in previous years.

However, the assessment commissioner has indicated that the agreements, without statutory authority, are unlawful. Consequently, the Peace Bridge authority has been forced to appeal its assessment for the years 1993 through 1997 because of the tax implications which I set out earlier in tab 5. The Peace Bridge authority and the town have agreed on the amount of taxation which should be paid for the years 1993, 1994 and 1995. Agreement has yet to be reached with respect to 1996 and 1997. However, without the agreement of the regional assessment commissioner, the agreements between the town and the bridge authority are of no effect.

1340

Consequently, the bridge authority and the town of Fort Erie are facing lengthy hearings before the Ontario Municipal Board. In addition, the method of assessment changed in 1996 with the imposition of market value, thereby necessitating consideration of assessment for 1993, 1994 and 1995 under one assessment regime and for the years 1996 and 1997 under a separate assessment regime. As the committee is aware, Bill 106 will then bring in a new assessment regime starting January 1, 1998.

The town of Fort Erie has indicated it is amenable to seeking a statutory authority to negotiate the amount of taxation to be imposed for these years. The resolution of the town council is found at tab 10.

We believe the government will shortly bring forward a proposal which would include such a provision as an amendment to Bill 106 applicable to the Peace Bridge and other international structures. As noted earlier at tab 5, the Peace Bridge has for many years faced the

inequity of being excluded from the International Bridges Municipal Payments Act. The negotiated settlements with the town have meant that the tax payments actually made by the Peace Bridge are only two to three times greater than that paid by the Niagara Falls Bridge Commission on the Queenston-Lewiston Bridge rather than the 10 times greater which is shown in our chart.

This legislation is urgently required in order to permit the town and the bridge authority to resolve those outstanding arrears. For this reason, we are requesting the committee's support to amendments which, we understand, may shortly be submitted to you by the government. Thank you for permitting me to make this submission.

The Vice-Chair: Perfect timing. Mr Lampman, we have about 30 seconds left. Do you have any final comments to make?

Mr Lampman: No, I don't, Mr Chairman.

The Vice-Chair: That exhausts the time for this presentation, gentlemen, I regret; no questions from the committee. Thank you very much for your presentation and we will read through the booklet as well.

TOWN OF HUNTSVILLE

The Vice-Chair: The next deputation is the corporation of the town of Huntsville. Gentlemen, welcome to the standing committee on finance and economic affairs.

Mr Michael Garvey: Good afternoon, Mr Hudak, committee members and other attendees. My name is Michael Garvey. You should have before you a package of material that we have provided. There are two tabs. At tab 1 you'll see there's reference to the individuals attending, one being myself and one being Don Kerr, who is the director of finance and the treasurer for the town of Huntsville. At tab 2 you'll find the submission which I'll be making to you this afternoon.

First of all, we'd both like to thank you for the opportunity to attend before you today in order to make submissions. By way of background, I would indicate that the town of Huntsville, as I'm sure you know, is situated in the Muskoka area of the province. It is the most populous of the six area municipalities which make up the district municipality of Muskoka and it has a full-time population of approximately 18,000, which is approximately 35% of the entire district's population.

From a land area perspective, Huntsville covers an area of almost 69,000 hectares — that translates to 170,000-odd acres — and is the second-largest of the six area municipalities in the district. To give you some sense of the size, the land area of Huntsville is not much smaller than the areas covered by some of the regional municipalities within southern Ontario and is larger than that covered by the municipality of Metropolitan Toronto.

In the case of the district municipality of Muskoka itself, like other upper-tier municipalities, it too covers a very large area. Due in part to this fact, and what I suggest is important to note for the purposes of this submission, the district also has significant geographic and demographic differences within its limits. In this regard, it is different from regional municipalities within the greater Toronto area, which are much more homogeneous in terms of their current land use, their expected future land uses and population distribution. As an example, the downtown areas of the two next most populated lower-tier municipalities in the district, those being Bracebridge and Gravenhurst, are between 40 and 50 kilometres from the downtown area of Huntsville, which happens to be the next closest significant urban area encountered when travelling north along the highway that connects the two, Highway 11, from Bracebridge. This 40-to-50-kilometre stretch of highway is, for the most part, through undeveloped forested area and creates a significant separation or buffer between the urban areas.

Unlike undeveloped areas within the greater Toronto area, these undeveloped areas will not be developed or infilled in a way which would effectively link Huntsville to these other centres and create a more homogeneous development pattern between them. The topography, the existence of the Canadian Shield and the sheer distance are factors which work against this occurring. The separation and distinctions between these communities will inevitably continue. Just to give you another sense, I can tell you that it's a long-distance call from Huntsville to either Bracebridge or Gravenhurst. So I think that gives some sense as to the distance between the two.

As a result of these circumstances, the delivery of services across existing lower-tier municipal boundaries is often impractical, if not impossible. Given the physical separations which do exist between the more heavily populated pockets within the district, and having regard for the clear thrust of the proposed legislation to create local-level decision-making in the areas of municipal assessment and taxation, we would submit that it is important to ask, what is a "locality," certainly in the context of Muskoka, and perhaps very well in other portions of the province.

The final point I'd make by way of background is that based upon the 1996 assessment for the 1997 taxation year, Huntsville has the second-largest total assessment base and the largest commercial assessment base of the area municipalities which make up Muskoka. These facts, coupled with the fact that Huntsville has a diverse range of property types, means that Huntsville will likely be significantly affected by the proposed legislation, including the regulations, some of which we now have in draft form.

Making some general observations with regard to Bill 106, we know that it obviously contemplates a significant revision to the province's property assessment and taxation systems.

It is recognized at this time, in the absence of certain of the regulations proposed to be made under the final product of the draft legislation, it is somewhat difficult to assess with precision what the actual final impacts and implications will be for not only taxpayers but also municipalities. However, the direction proposed by the draft legislation is clear, as are many of its details, and it is for that reason we have asked to make this submission.

At the outset, I would indicate that the town of Huntsville is generally supportive of the legislative amendments proposed in Bill 106. The town concurs that there is a need for change with regard to property assessment and taxation as the system currently in place in the province

is outdated in many respects. The creation of a single consistent approach across the province with respect to the assessment of property is long overdue.

Most important, the principle of providing local municipal governments with more decision-making powers vis-à-vis assessment and taxation is both logical and appropriate. Allowing municipal governments, which have the most direct links with taxpayers, to address the concerns and priorities of their constituents through the municipal taxation system, and being able to determine what the appropriate distribution of tax liabilities should be within a municipality, is a positive step in the right direction.

Notwithstanding the town's general support for the fundamental principle of facilitating local decision-making and other principles which underpin the proposed legislation, there are certain aspects of Bill 106 which the town respectfully suggests should be modified in order to better implement the principle of local decision-making and to improve the legislation.

The town's primary concern with respect to the proposed legislation relates to the distinction made between upper-tier and lower-tier municipalities with regard to several aspects. As well, the proposed legislation has implications for business improvement areas, one of which has been created within the town of Huntsville, so this too is a concern.

Beginning first with the upper-tier/lower-tier distinction, I'd like to touch upon the issue of establishing tax ratios. As I have noted, the town of Huntsville is within the district of Muskoka and therefore it is a lower-tier municipality. Like all lower-tier municipalities in the province, the town of Huntsville has for years set mill rates based upon the forecasted needs and expectations of the town and its residents and obviously in doing so has had regard for the requirement of the 15% differential between the residential and commercial/industrial rates of tax.

While the difference which must now exist between residential and commercial/industrial tax rates is statutorily mandated, the proposed legislation would have the effect of creating a degree of flexibility with respect to both the actual number of tax rates created and the differences or variations that can exist between them.

1350

The town of Huntsville agrees that the discretion to make decisions utilizing this flexibility should rest, to a significant extent, with local municipal governments. In our respectful submission, given the municipal makeup within the district of Muskoka and the physical and demographic characteristics described earlier, the level of government in the district having the decision-making power to determine the variations between tax rates, ie the tax ratios, should be the lower tier.

We appreciate that the potential for lower-tier municipalities to have this authority does exist in the proposed legislation. The draft legislation proposes that the establishment of tax ratios be done by an upper-tier municipality, except in cases where a bylaw delegating such powers to all lower-tier municipalities has been passed by the upper-tier municipality; second, all lower-tier municipalities consent to the delegation proposed by such bylaw; and third, a regulation has been passed designating the upper-tier municipality as one capable of passing a bylaw delegating the power to establish tax ratios to lower-tier municipalities.

We also note that, as drafted, the proposed legislation would require that this delegation to lower-tier municipalities take place on an annual basis. In other words, a delegation in one taxation year would not guarantee a delegation for the following year or years.

In the absence of a delegation of the tax ratio establishing power, lower-tier municipalities, although capable of creating their own tax rates, would have those tax rates effectively determined by the upper-tier municipality establishing the tax ratios. Consequently, it would be the councils of upper-tier municipalities which would, for each lower-tier municipality, determine how the tax liability is to be apportioned among the various classes of property. This, we submit, does not fully achieve one of the desired goals of the proposed legislation in that it has the potential to lessen the accountability of lower-tier municipal politicians and councils to their taxpayers.

While there would be elected representatives from Huntsville on district council, those members currently make up only four of the 23 members of district council. Thus, the tax liability between classes of property in Huntsville and the resulting tax rates imposed by the lower-tier municipalities would not be created solely by elected officials from Huntsville. In fact, Huntsville representatives on district council could be opposed to, and have voted against, a tax ratio approved by the district council but because of the composition of the district council, that would be defeated.

As well, recognizing that the assessment bases of various municipalities within a tiered structure can be quite different in terms of the splits between, and amount of assessment base attributable to, the various property classes, we would suggest that it would be more appropriate for lower-tier municipalities to determine how tax liability is to be distributed among the property classes within their own jurisdictions.

In this regard, we would also note that in the official statements released when the draft legislation was introduced in January, and in the materials which were publicly released on April 7 in Toronto at the outset of these standing committee hearings, there were references to the proposed legislation making local decision-makers more accountable to taxpayers and to creating choices for local governments. Again, the question arises, particularly in the district of Muskoka, as I have alluded to, what is "local"?

In this regard, it is interesting to note that the current Municipal Act itself seems to attach some significance to the word "local." It currently defines the term "local municipality" as a "city, town, village and township," in other words, a lower-tier municipality. While Bill 106 proposes to introduce new definitions to the Municipal Act for the purposes of its amendments, the current in-force version of the Municipal Act, at least as it pertains to municipal taxes, refers throughout to "local municipalities."

In our respectful submission, if one objective of the proposed legislation is to provide local governments with certain decision-making powers — and that clearly is an

objective — then serious consideration should be given to having the lower-tier municipalities be the recipients of those powers, including the ability to determine tax ratios. We believe this to be particularly so within the district of Muskoka, having regard for the lay of the land, as I've described earlier.

Turning to the potential for the delegation of authority to establish ratios, the town's concern with respect to the approach proposed is that before the town could obtain any ability to establish the various tax ratios on its own, three things must happen. I identified them briefly earlier. There is first the need for an upper-tier delegating bylaw; there would, second, need to be the consent of the lower-tier municipalities to that bylaw; and then, third, there would need to be the regulation from the province designating the upper-tier municipality as one having the ability to delegate the tax ratio establishing power.

In the town's respectful submission, the process by which a lower-tier municipality might obtain the ability to establish its tax ratios is too onerous and restrictive and could be simplified in a way which would assist in achieving the desired goal of having matters controlled more at the local level. Thus, in the town's submission, amendments to the draft legislation would facilitate more accountable decision-making at the local level. We believe that there may areas within the province, and we submit the district municipality of Muskoka is one such area, where lower-tier municipalities should have an as-of-right power to establish tax ratios.

The existence of numerous pieces of municipally related legislation with regard to regional municipalities, district municipalities and other municipalities is unquestionable evidence that not all areas of the province should necessarily be treated in the same manner. For a number of potential reasons, treating certain areas of the province and certain municipalities within them in different ways could be warranted. In this regard, we would ask that legislative amendments be considered and introduced which would allow lower-tier municipalities within the district of Muskoka, if they choose, to determine their own tax ratios.

Turning to the second topic within the upper-tier/lower-tier distinction, I would refer to the phase-in and tax deferral provisions that are contemplated. The proposed legislation would allow upper-tier municipalities to pass bylaws with respect to the phasing in of the tax increases or decreases flowing from assessment-related changes. Currently, lower-tier municipalities have the authority to pass bylaws relating to the phasing in of tax increases or decreases resulting from a change in assessment. As the town of Huntsville has a relatively current assessment, the proposed phase-in provisions may not have significant implications, but at this point it's difficult to know with absolute certainty.

However, recognizing the intention of the legislation to have decisions made at the local level and to have locally elected officials accountable for such decisions, we would recommend that lower-tier municipalities, at least within the district of Muskoka, be given the power to pass bylaws relating to phase-in programs.

Our comments in this regard are equally applicable to the power to pass bylaws deferring taxes for low-income seniors and low-income persons with disabilities where there are assessment-related tax increases.

Turning to the second major heading, the issue of business improvement areas, we would note that within municipalities such as the town of Huntsville the role of a business improvement area and related board of management is significant. Unlike other municipalities within the province with much larger and more diverse commercial presences, the downtown commercial enterprises, relatively speaking, are more significant in urban centres such as Huntsville, as they are the primary commercial nodes.

In accordance with the proposed elimination of the business occupancy tax, it is proposed that there be consequential changes to the Municipal Act provisions pertaining to business improvement areas. Whereas the legislation currently authorizes the levying of special charges upon persons in the area assessed for business assessment, the elimination of business assessment will change this. The proposed legislation would have the levying of the special charges made upon the rateable property in the area that is in a prescribed business property class. Consequently, the levying of special charges in relation to business improvement areas is to be imposed upon landowners, as opposed to persons carrying on businesses.

While the legislation contemplates amendments which would allow landowners to sit on BIA boards of management, one must recognize that it is the business operators, who are not always the landowners and often have leasehold interests, who rely upon the benefits derived from the existence of a business improvement area and its promotion in the community. It is possible that landowners may not be particularly interested in the activity within a business improvement area or may be absent landlords not living in the town, the province or perhaps even the country. To ensure that the continued existence and operation of business improvement areas are not undermined, continuing to have business operators as the parties required to pay special charges would be preferred.

While we recognize that leases existing between landowners and business operators may allow for the passing on of such special charges to the business operator, that may not always be the case.

The Acting Chair (Mr E.J. Douglas Rollins): Excuse me, Mr Garvey, you've got about one minute to wrap up.

Mr Garvey: Thank you, sir. Accordingly, the town would request that consideration be given to amendments which would effectively maintain the status quo of having businesses pay special charges levied in connection with an existing business improvement area, as opposed to land owners.

The final two topics which are addressed in the submission relate to managed forest property classes, and we note that the draft regulation that was introduced on April 7 indicated that there had not yet been a final determination made with respect to managed forests. As you can appreciate, in Huntsville there are significant forested areas, so the town certainly looks forward to receiving the final proposed contents of that regulation.

With regard to the assessment function, the announcement has been made that that function will, as of

January 1, 1998, be transferred to the local level. We understand that the transition teams are working on that aspect right now and we believe the involvement of lower-tier municipalities is important to that process. We'll continue to monitor that.

This concludes the presentation. We thank you for the opportunity to appear before you.

The Acting Chair: We thank you for presenting. You've used up your time so there won't be any time for questions, but thank you very much for the presentation.

1400

TOWNSHIP OF BRUCE

The Acting Chair: At this time we call the deputation for 2 o'clock from Bruce township.

Mr Howard Ribey: First I'd like to introduce myself. I'm Howard Ribey. I'm the reeve of Bruce township. With me today is Bob Waram, our clerk. We have a submission to make. We also have one from the county of Bruce in support of our submission and we'll just leave it with you. We hope there will be some time for questions at the end.

On behalf of Bruce township council, I would like to thank you for the opportunity to appear before you today to make our rather unique situation known to your committee.

Bruce township is a small community on the shores of Lake Huron with a population of approximately 1,700 people. Our municipality is rather unique in that it receives about 26% of its total own-purpose revenues under the provisions of the Power Corporation Act.

We are concerned for all the latest changes to municipal financing and how they will affect our municipality. We are trying to understand the impact of the changes, and there certainly are a variety of interpretations available.

Section 68 of Bill 106 proposes to change the Power Corporation Act, and we would like to suggest: (a) an amendment be made to the draft legislation to exempt us from the legislation currently being proposed until impacts are understood; or (b) senior ministry staff now establish a working group to consult with the authors and others affected to explain the issues and the impacts to us and help to work to an appropriate solution; possibly an amendment to this or future legislation.

Copies of section 68 of Bill 106 and the corresponding sections of the Power Corporation Act are attached.

In the background, the current Power Corporation Act provides for payments to the host municipality at full commercial rates for all levied taxes — that's the school, county and local. It currently provides for property assessment and business assessment of 60% of the property value. The Power Corporation Act fixes the property assessment on generating stations to $86.11 a square metre and a maximum payment not to exceed 50% of total tax payments levied from all purposes. This 50% amount includes the gross receipt tax levied.

In Bruce township the 50% rule applies because of the very large size of Ontario Hydro assessment compared to all the other assessment in the township, and you can look at the attachments in the back.

The township is required to pay the county their share of Ontario Hydro PIL, payment in lieu, based on the percentage of the county levy to the total tax levy. The township benefits from the education tax levy, as we currently retain the education portion of the payment in lieu for township purposes.

The act requires no payment of the school portion to the school board, so when we collect approximately $1.5 million for taxes — all purposes including gross receipt taxes — Ontario Hydro pays 50% of this amount to the township: $750,000, as a payment in lieu. We in turn, according to the current act, pay the county their share, approximately 13% or $100,000, and we retain the balance of approximately $650,000. The township's share in 1996 was $665,000. Note the township's own share of taxation was $345,000 in 1996 and total sources of revenue were $2,515,000. So our share of the PIL represents 192% of own-purpose taxation and 26% of total township revenues.

Issues related to section 68 of Bill 106. There are four issues of key importance which are not addressed properly in this legislation: The major change appears to be the removal of the business assessment of 60%; the 50% rule; $86.11 a square metre fixed assessment appears unchanged; and Bill 106 continues to refer to the education portion. We interpret that to mean that whatever rate the province asks us to levy on commercial property for education purposes would still be part of the payment-in-lieu calculation and the township would still retain this portion. We would like to know what amount the province plans to levy on commercial properties and would we still retain the education levy under the Power Corporation Act?

We question the logic to retain the 50% rule and the $86.11 a square metre for Ontario Hydro assessment when this would not apply to any other business. No other industry enjoys the benefit of a 50% rule and we question the fairness of the 50% rule for one industry. If the Bruce nuclear power development operation was in a larger municipality, they would pay significantly larger amounts to the host municipality. The 50% rule is becoming more important to us now as we appear to be losing the benefits we received from the education portion of the payment in lieu.

The $86.11-per-square-metre assessment on generating facilities is equivalent to $8 per square foot, and the calculation is only done on the ground floor area. These specially engineered buildings with their special features and high ceilings are six to eight stories in height and valued at about one tenth the value of an average bungalow. A single-storey bungalow would be valued at about $80 per square foot based on one floor. A generating station is valued on $8 a square foot as if it only has one floor, and in reality it has many more.

At the Bruce nuclear power development the ground floor area of the generating facilities is 2,603,780 square feet and is valued at $8 a square foot, or $20,830,240. We estimated the cost of these buildings would be approximately $2 billion and this would equate to an assessment of 1% of the cost.

We are not looking to make a huge tax grab but to protect the revenue sources we currently receive. While

we believe the current system is not perfect, we believe it is much fairer to our municipality than what we understand is being proposed.

How do we collect the lost revenues on farm land, business taxes and payment in lieu? We are not comfortable with the long-term outlook and a short-term provincial commitment to pay the shortfalls. We also expect large local tax increases from the county as they pay substantially more for welfare, social programs and other downloading.

Our concerns are that the provincial savings will not be as much as the local increases, particularly for the farm tax rebate program, the removal of education tax, the effect of the Power Corporation Act, payment in lieu and the loss of business assessment.

We understand (a) our farm lands are assessed at $10 million and will only have to pay on one quarter of their assessment; (b) we will not collect gross receipts tax; (c) we will not collect education taxes on residential; and (d) we will not collect business taxes. This all has a double effect on our township as it would reduce Hydro payments in lieu which are limited to 50% of our tax revenues. Is this fair?

This is further complicated by policing costs, assessment costs and other downloading. The township is unique as a farm community, with 1,700 residents and a 4,500-person workforce at the Bruce nuclear power development Ontario Hydro site. The demands of this workforce and other traffic to the Bruce nuclear power development to provide services to the site put a lot of demands on the roads and policing, as this workforce and other traffic all come in and out of our township every day. Is it fair that they pay a decreasing share of costs while our costs go up for policing, roads and assessment changes?

1410

In summary, we are here today to raise awareness of our issues and their potential impacts on our community. We had hoped to be able to draft an amendment to the proposed legislation to present to you today for consideration. However, no one clearly understands what is being proposed as it affects us, and we have too many unanswered questions to be able to offer a solution. This is because we do not understand and cannot clearly assess the impact.

All we could suggest today is (a) that an amendment be made to the draft legislation to exempt us from the legislation currently being proposed until impacts are understood; or (b) that senior ministry staff now establish a working group to consult with the authors and others affected to explain the issues and their impacts to us and help to work to an appropriate solution; possibly an amendment to this or future legislation.

We have attached as schedules our current assessment summary and some possible effects to our municipal revenues. We would welcome any questions you might have. All of this is respectfully submitted. Thank you.

The Vice-Chair: That leave us about three minutes per caucus for questions, beginning with the official opposition.

Mr Kwinter: Thank you very much for your presentation. You raise a very interesting situation where you only have 1,700 people who you can actually tax, and without the tax that you get from the Bruce generating station, you're really in a big problem.

Mr Ribey: That's right.

Mr Kwinter: We've already had another anomaly, and that is the offshore gas lines into the lake. I think there's a provision in the act that allows for new categories to be established. The problem I see in this is that you're a unique situation, but there are probably other unique situations, and then you get some real problems in being fair and equitable.

At the present time you depend for a great deal of your revenue under the Power Corporation Act, and with this new situation you may not have access to that. They may be assessed differently, and because you've got this whole business of the 50% of your tax revenues, you have a problem.

I don't have an answer for you, quite frankly. It's going to be fairly complex to come up with something that's going to be fair and equitable and is not going to be setting a precedent for a lot of other people to say: "Why them? Why not me? We have another situation where we have a one-industry town and this one industry is the thing that really creates our financial base, so we need an exemption as well."

I wish I could offer you some suggestions but I really can't at this moment other than to share your concerns on the fact that with the reduction of the business occupancy tax and with the removal of the educational portion from the municipal tax rolls and putting it on to the province, you are going to have some problems.

Mr Ribey: We're quite aware of it.

Mr Kwinter: Hopefully, the government members will listen to it and come up with some resolution to address it. I thank you for sharing that with us.

Mr Ribey: If I could just make one comment, there are only two other municipalities in Ontario that are in the same situation we are, that haven't got nearly enough assessment to recoup what Ontario Hydro would have to pay if they were totally taxed as any other industry is, one being Mattawa. The other one escapes us right now, but I understand it's up on the Ottawa River, just east of Ottawa. There are only the three municipalities in the province where this has the same effect.

Mr Marchese: Thank you both for coming and making this presentation. It's always important to hear from a variety of different groups that come before the committee because each group brings their own particular perception and problem. You've indicated here, "We are trying to understand the impact of the changes, and there certainly are a variety of interpretations available." That's part of the problem really. Have you contacted your MPP or ministry people or the Ministry of Finance or Municipal Affairs or anyone to get a sense of what some of those interpretations might be?

Mr Bob Waram: We have actually written to the Honourable Norm Sterling, and Municipal Affairs, the Honourable Al Leach. We've sent copies to our MPP. We've sent copies to AMO. We've circulated fairly widely but we haven't got any answers back yet. Everybody we talked to, including the ministry staff, aren't sure what the interpretations are of this.

Mr Marchese: But you got some letter that says, "We received your concerns; we don't have an answer yet," or did you not get any reply at all?

Mr Waram: We haven't got a response to letters we sent yet.

Mr Marchese: I certainly support parts of your recommendations. We've been asking for the impact studies. You weren't here this morning. Ms Basset said there's a reason why they're withholding those studies. We don't clearly understand why. We think we should see them, because those impact studies might relate to a whole sector of the population or municipalities or individuals. People should see them because I think we would have a better understanding of them.

I'm not sure whether it might address your particular situation but I think we need information. I think we have a duty as a government, or the various people in charge of this issue, to respond to these concerns.

Mr Waram: That's what we're hoping for, yes.

Mr Marchese: You're hoping you might get an audience from someone here today or someone responding back to this after —

Mr Waram: We've asked for audiences with two different ministries, yes.

Mr Marchese: You haven't gotten that?

Mr Waram: That's correct.

Mr Marchese: I think it's clear that you, as a municipality, have a problem. They got rid of the education portion out of property taxes for a reason, but they're now going to impose other problems, which means you'll still have the same burden, if not more, but with the education levy taken out, some of that funding that you normally would have had is taken away. Not only do you have that portion eliminated but you're going to have another burden to bear without possibly any support whatsoever. You have reason to worry.

Mr Gilchrist: Thank you, gentlemen, for coming forth here today. I can't speak to the correspondence you may have sent to others, but I do want to give you some comfort. In fact the issue facing you and the other two townships in Ontario that are in a similar situation has been discussed right at the cabinet level these last couple of weeks. We've had a few other things taking place at Queen's Park that have slowed some of the cabinet discussions, but in all seriousness, the issue of the payments in lieu is before them.

Hydro itself has come forward and said that it's very conscious of this and it wants the payments to be maintained. Right now the question is how the mechanism is changed. Do we change the 50% rule or just make a special exemption for those three municipalities? Given that it's such a small percentage of the 815 municipalities in Ontario that are affected, it may be easier to make an exemption that way.

You raised another question in your presentation on the second page. As timely as just two hours ago, a press release has just gone out that the business education tax review panel has just been put together by the minister, chaired by Cedric Ritchie, who is of course the former president of the Bank of Nova Scotia, and a number of other individuals. They will be going out and holding consultations and looking at the various models to address specifically your questions about how the education aspect of commercial assessments impacts your community and the others across Ontario.

I will certainly undertake to forward a copy of your presentation to them, but you can rest assured that as they get up and running they will be sending out an invitation to municipalities across Ontario. Again, you may wish to refine your comments specifically to that task, but I'll make sure that this gets forwarded to them as well, I'm sure well before anything changes at the start of next year.

Their first meeting is going to be tomorrow. They're heading off immediately and there will be public consultations and certainly consultation with municipalities as part of their work. I appreciate you raising these questions with us here today.

The Vice-Chair: Thank you, gentlemen, on behalf of the committee for your presentation. I'm pleased you had this chance to raise a unique issue that we hadn't heard. The committee will take it into consideration. Thanks also for the trip down. Have a safe trip on your way back home.

1420

The scheduled 2:20 appointment is Edward Feirtag. Mr Feirtag cannot attend. I have a suggestion to the committee. I'd like their advice on this. I've been approached by three people in the gathering today who've asked for about five minutes to make their own presentations. My suggestion is to allow them those five minutes, but without questions, because members have to get back to their ridings.

Mr Gilchrist: Do you need a motion?

The Vice-Chair: I would appreciate a motion to that effect.

Mr Gilchrist: I move that we grant five minutes' hearing time to anyone in the assembly who has expressed an interest in appearing.

The Vice-Chair: The motion's on the floor. I need all-party agreement. Are all parties agreed? Agreed.

To make it clear, there are three individuals by the names of Richard Bell, Nick Mileni and Coleman Bagu, in that order. That's part of your motion, Mr Gilchrist?

Mr Gilchrist: That will be fine. Thank you.

The Vice-Chair: All-party consent? Very good.

RICHARD BELL

The Vice-Chair: Mr Bell first, followed by Mr Mileni and then Mr Bagu. I'll give you five minutes' time. In the interest of the members getting back to their ridings in time, we won't have any questions about your presentations. Just get your feelings on the record.

Mr Richard Bell: If I read real fast within the five minutes, could anybody ask me a question?

Interjections: Sure.

Mr Bell: "The finance committee re Bill 106, the Fair Municipal Finance Act.

"Dear members:

"Please send me all the necessary information regarding the proposed changes that could affect me in any way regarding my assessment and the resulting taxes. I do not

at all understand the methods used. As a result, I find it very hard to comment. The changes that are coming from all levels of government are in a sense made to look like the taxpayer is the person who will get the break or reduction or whatever you want to call it.

"My innermost feeling tells me to ask what this all means to me if the changes made result in an increase. Will it pull back in the delivery of services? Is this really fair to me? I have observed many large industries close down in the Niagara region. The tax burden has shifted, with reduced spending, reduced services, the hospital dilemma, but our population has increased. To me, we need some of these services more than ever, but can we count on them?

"I believe land in unserviced areas that had a direct tax increase from market value assessment was unfair. As you might wonder why I should say this, I have a rural lot and the taxes went up two and a half times. Many people are forced to drive out of the region to work, with hours either on the highway or stopped because of traffic etc. They did not even get a chance to really enjoy the comforts of their home or family. Should we have a system that is the same all over the province? I do not know or can fully respond at this time because until I have the information with a proper explanation, it's very tough to come to a conclusion.

"Transit, access to education, subsidies, grants and a number of other ways in which our province was set up to run should all be factored when tax reforms are being considered. I will conclude and thank you for allowing me to voice my concerns."

Signed myself and my address.

I must say in this area also, if you went around the lake, we have inflated values on some properties because they're very desirable areas; some of them are. The American people come in, they have a dollar that's worth 40% more, so you have inflated values. If you happen to be a person who's been living there for many years, all of a sudden your property taxes were driven up, and you want to stay there.

I heard a gentleman earlier today say that maybe people should test it on the market. I think that's totally ridiculous. I think a man or a family who's been there, especially for many years, should have the opportunity to remain there and not be forced to pay these exorbitant taxes just because other people are willing to pay premiums to live there. I'll conclude with that. Thank you very much. I appreciate being allowed the time.

The Vice-Chair: Very good, Mr Bell, I'm glad you had the time to present. That will not leave us enough time in the five minutes for questions. Actually, the original motion said no questions.

Mr Bell: I will follow this up. I told the clerk that I will follow this up when I —

Mr Gilchrist: Actually, Chair, if it's of any assistance, I've just asked one of the ministry staff to photocopy the press releases and some of the background notes to be able to give a copy to this gentleman. It has on there the phone number to solicit any further information you would need. She'll be back in just one second. She's just making a photocopy.

Mr Bell: Thank you very much.

NICK MILENI

The Vice-Chair: Mr Mileni?

Mr Nick Mileni: Thank you, Mr Chairman, members of the committee. I don't have any handouts to give but I'm sure that as I look in front of me and I see the young faces, your memories are very good and you're not having this little Alzheimer disease that I'm suffering from perhaps.

The reason that I'm here today is that I'm a citizen of the town of Fort Erie and I want to go on record as saying that I approve of the actual market value assessment in the name of fairness and equity throughout the province of Ontario. What I do not approve of and what disappoints me, because of the name of the fairness and equity, is taxes in lieu of. Taxes in lieu of is not a fair system, particularly within our municipality, and I'm talking of the Peace Bridge authority. The Peace Bridge authority has had the privilege in past years of having to deal with the town of Fort Erie in taxes in lieu of.

What they didn't tell you today, and what I've heard is, every piece of property that they purchase — they have purchased in the last five years numerous properties, which has reduced the tax base of the town of Fort Erie. When they pay in lieu of, we lose that tax base and someone has to pick up that tax base. The only other person who ever picks up a tax base — I remember very vividly that Mr Bill Davis used to stand and say, "There's only one place that the tax dollar comes from and that's from your pocket and my pocket." Well, I'm a little tired of paying, and someone else in lieu of.

You've heard today that in the year 2000 the Peace Bridge expects to have a $30-billion revenue, paying $275,000 in lieu of. Wouldn't we love to have a business that generates a $30-billion revenue a year? If we happen to be fortunate enough to have an industry in Fort Erie that generates $30 billion a year or even a couple of billion dollars a year, you can rest assured their taxes wouldn't be $279,000. Someone has to be picking up this particular tax base.

In the year 1998 it is predicted that because of the downsizing, municipalities are going to have to find their own way of generating revenue. Well, one way of generating revenue is being fair and equitable, and fair and equitable to the taxpayers of this particular region is that the Peace Bridge authority pay their fair share.

The Ambassador Bridge in Detroit — and this information came from the assessment office in St Catharines — pays $2 million a year in taxes. That's a far cry, and the Peace Bridge is saying or predicting that they are number two as far as traffic is concerned. In fact, in the year 2000 they hope to be number one, yet they only pay the share of what a normal small business would pay.

Unfortunately, and it is my opinion only, the town of Fort Erie as far as the elected officials are concerned is not doing what it proposed to do and that's keeping the welfare and the interests of the citizens of the town of Fort Erie.

I say this, ladies and gentlemen, not only so that I can pick on the Peace Bridge authority; I also maintain that the Niagara Parks Commission is not paying their fair

share. In fact, I'm not sure whether they pay any at all. The Niagara Parks Commission also has land within the cities of Niagara-on-the-Lake, Niagara Falls and Fort Erie. Somewhere along the line somebody's got to pick up the bill. Somebody has to take care of the taxes. If we allow the Peace Bridge authority to go in lieu of, that represents about $30 per household in the town of Fort Erie.

I make the recommendation to you — and I know the five minutes is up — that hopefully when you go back, your recommendation to the committee is that all international bridges crossing from Ontario to the USA will pay not in lieu of but pay revenue-generated. Thank you, ladies and gentlemen. I thank you for giving me the time.

The Vice-Chair: Thank you, Mr Mileni. I'm glad you had a chance to get on the record.

COLEMAN BAGU

The Vice-Chair: Coleman Bagu? Welcome to the committee. By our all-party motion, you have five minutes for your presentation.

Mr Coleman Bagu: Mr Chairman, my member of Parliament, thank you very much for accepting me here.

Honourable members, I'm on the same subject as Mr Mileni. I've been harping on this for a long time. I wrote a little bit and I left most of it with the clerk and I hope the clerk will give you copies of another one.

I've put down here that Ernie Eves is being asked to circumvent the OMB and continues to allow the PBA and local councils to continue to negotiate the pittance in lieu of taxes instead of letting the Ontario Municipal Board decide on the Niagara assessment levy of $1.1 million. It certainly appears that this undue pressure by the Peace Bridge commission on a weak mayor and council could again cheat our taxpayers of about $800 a year.

By the way, I also live in Fort Erie and pay taxes there and I also live in Port Colborne. I was mayor back in the 1960s. Another subject that I'd like to mention to you is the fact that back in those days municipalities carried a large percentage of the welfare, and in your downloading I want you to think of this seriously because it did affect Crystal Beach very much. The municipalities in the Niagara Peninsula — at that time I was welfare chairman myself — I'm ashamed to say it but they all sent their welfare people as soon as they could to Crystal Beach because there were empty cottages there that were summer cottages. Business was bad and the owners wanted them filled up, so all they had to do was put some bales of straw around the outside and they stamped it "Okay." I'm just afraid that if the municipalities are going to carry most of the burden of welfare, this could happen again: unfortunate circumstances like Crystal Beach, where there's a lot of summer cottages, that they'll approve them as okay and the municipalities will again start to send them. I know we had people move down here from Toronto, because at that time you were responsible to pay them for six months only and then it became the responsibility of the municipality.

I'd just like to say be careful in your downloading and keep that in mind. Perhaps you can afford that some way, perhaps by stressing the time as to when they could leave a municipality, and the burden on the other municipality. As you know — you're experienced politicians — when it comes to welfare, it's not just one generation. I can see the effects of it today in Fort Erie and the Crystal Beach area. It's a burden because there are about four generations. Thank you very much.

The Vice-Chair: Thank you, Mr Bagu. I appreciate you taking the time to make a presentation.

Mr Bagu: As I say, I'm ashamed to mention that I was part of that. From Port Colborne I used to send the welfare down there too, just so in six months we can just write them off.

The Vice-Chair: Thank you for your presentation.

Also to the committee members, I've been passed a note from the mayor of Port Colborne, who would ask for a couple of minutes to thank the members for visiting Port Colborne today. Would somebody move a motion to that effect?

Interjection: Agreed.

The Vice-Chair: All-party agreement? Agreed.

NEAL SCHOEN

The Vice-Chair: Mayor Schoen, welcome to the committee.

Mr Neal Schoen: Thanks for making my speech for me. Just very shortly, I apologize I couldn't be here this morning to welcome you here to beautiful Port Colborne. I'm happy that you're pleased with the building and the facility. We're hearing a lot of good comments, both from you and from the people who have come to make delegations to you.

I just want to again say thank you. I appreciate the fact that you've come to town here, and think about us next time. We're definitely open for business and looking forward to having you come as many times as you'd like. I know you have lots of issues. I've got my little "Save the hospital" button on for all those who are so inclined. It's good to hear about Tim's new appointment. Again I just want to say thank you. Thank you for paying for one third of this building, by the way, with the infrastructure dollars. We did appreciate that. It's good to see you come back and use it and pay some rent on top of that. So thanks again. We appreciate your being here.

The Vice-Chair: Thank you, Mayor Schoen. There being no more business before this committee, I remind all members that the next meeting will be May 1 at Queen's Park beginning at 10 am. Until that time, this committee stands adjourned.

The committee adjourned at 1434.

CONTENTS

Thursday 17 April 1997

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Chair / Président: Mr Ted Chudleigh (Halton North / -Nord PC)
Vice-Chair / Vice-Président: Mr Tim Hudak (Niagara South / -Sud PC)

Ms Isabel Bassett (St Andrew-St Patrick PC)
Mr Jim Brown (Scarborough West / -Ouest PC)
Mr Ted Chudleigh (Halton North / -Nord PC)
Mr Joseph Cordiano (Lawrence L)
Mr Douglas B. Ford (Etobicoke-Humber PC)
Mr Tim Hudak (Niagara South / -Sud PC)
Mr Monte Kwinter (Wilson Heights L)
Mr Tony Martin (Sault Ste Marie ND)
Mr Gerry Martiniuk (Cambridge PC)
Mr Gerry Phillips (Scarborough-Agincourt L)
Mr Gilles Pouliot (Lake Nipigon / Lac-Nipigon ND)
Mr E. J. Douglas Rollins (Quinte PC)
Mr Joseph Spina (Brampton North / -Nord PC)
Mr Wayne Wettlaufer (Kitchener PC)

Substitutions / Membres remplaçants:
Mr Mike Colle (Oakwood L)
Mr Steve Gilchrist (Scarborough East / -Est PC)
Mr Rosario Marchese (Fort York ND)
Mr John L. Parker (York East / -Est PC)

Clerk / Greffier: Mr Franco Carrozza

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Thursday 1 May 1997

Journal des débats (Hansard)

Jeudi 1er mai 1997

Standing committee on finance and economic affairs

Fair Municipal Finance Act, 1997

Comité permanent des finances et des affaires économiques

Loi de 1997 sur le financement équitable des municipalités

Chair: Terence H. Young
Clerk: Franco Carrozza

Président : Terence H. Young
Greffier : Franco Carrozza

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 1 May 1997

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Jeudi 1er mai 1997

The committee met at 1007 in committee room 1.

ELECTION OF CHAIR

Clerk of the Committee (Mr Franco Carrozza): Good morning, everyone. Welcome back. I must inform you that there have been changes in the committee membership. We must elect a Chair and a Vice-Chair. I now open the floor for nominations.

Mr Gerry Martiniuk (Cambridge): I have the distinct pleasure of nominating Terence Young to stand for election as Chair of this committee.

Mr Gerry Phillips (Scarborough-Agincourt): I'll second that.

Clerk of the Committee: Any other nominations? I now close the nominations and ask Mr Young to take the chair.

The Chair (Mr Terence Young): Thank you to my nominator and my seconder. Before we move to electing a Vice-Chair, I would ask the research assistant to distribute some documents, a summary of recommendations. Also, Mr Hudak made a request for information regarding differentiation of assessments, so that will be distributed now.

Interjection.

The Chair: It's done? Okay, that's done.

ELECTION OF VICE-CHAIR

The Chair: We'll move right to the election of the Vice-Chair. I open the nominations.

Mr E.J. Douglas Rollins (Quinte): It gives me great pleasure to nominate for Wayne Wettlaufer Vice-Chair.

The Chair: Any further nominations?

Mr Phillips: Do you need a seconder for that?

Clerk of the Committee: Not in committee.

The Chair: The nominations are closed. I declare Wayne Wettlaufer to be the Vice-Chair of this committee.

APPOINTMENT OF SUBCOMMITTEE

The Chair: I'll now entertain motions regarding the establishment of a subcommittee for committee business.

Mr Jim Brown (Scarborough West): I move that a subcommittee on committee business be appointed to meet from time to time at the call of the Chair, or at the request of any member thereof, to consider and report to the committee on the business of the committee; that the presence of all members of the subcommittee is necessary to constitute a meeting; that the subcommittee be composed of the following members: Mr Young, Ms Bassett, Mr Pouliot and Mr Phillips; and that any member may designate a substitute member on the subcommittee who is of the same recognized party.

The Chair: All those in favour? Any opposed? Carried.

FAIR MUNICIPAL FINANCE ACT, 1997
LOI DE 1997 SUR LE FINANCEMENT ÉQUITABLE DES MUNICIPALITÉS

Consideration of Bill 106, An Act respecting the financing of local government / Projet de loi 106, Loi concernant le financement des administrations locales.

The Chair: The government has presented some replacement amendments which I'd like to make sure are distributed.

Mr Gilles Pouliot (Lake Nipigon): How many, Chair?

Clerk of the Committee: I will give them to you in a moment. For your notice, there are four, plus a new one. The first one will replace 2, so I've marked that 2A. I will give it to you in a moment. The second one will replace 4. The third is to replace 5. Then there is a new amendment to section 55, subsection 372(3). The last one will replace 31.

Mr Pouliot: Point of order, Chair: First and foremost, congratulations to you and to the Vice-Chair on your election — well, appointment. How many amendments do we have from the government side on Bill 106 as we go to clause-by-clause?

The Chair: I have 43 amendments right now. We have replacement amendments being distributed. I haven't counted how many are government amendments, so I'll let the parliamentary assistant answer that.

I'm going to ask the clerk to go through these replacement amendments and make sure the members have them attached to the right section. Would you mind doing that, please?

Mr Phillips: On a point of order, Mr Chair: The committee had agreed that all amendments would be in by 5 o'clock on Friday, April 25. I don't know what the procedure normally is, but I had assumed that was the instruction to our committee. Is it permissible for us to be entertaining amendments now? I'd like to know that for now and I'd like to know it for the future when we have an agreement and that doesn't then seem to have any force of weight.

The Chair: Under standing order 75, the parties can submit amendments until two hours before the committee sits "when time permits." If you have any further amendments, if you were to submit them right now I would rule them in order. I apologize on behalf of the clerks' department for that miscommunication. You thought you had to have your amendments in by Friday at 5 o'clock and

there was a miscommunication on the subcommittee, I understand.

Mr Phillips: If that's the way we want to do it, I don't know why we would ever agree to the amendments being presented to the clerk at 5 o'clock on Friday, April 25. If that was how we were going to work, I would have liked to have known that and said: "I won't go through a lot of work to get them in on Friday. I'll just wait until two hours before the committee." I assumed that was the agreement. I'm not going to be sticky about this, but if that's how the committee wants to work, I think we've got some trouble.

Mr Pouliot: For the record, the NDP amendments, the third party's amendments, were in by — I need your help, Franco — Tuesday, so we had exceeded the deadline, although in terms of "miscommunication," we thought we had that flexibility. Now we're informed two hours prior, which means the supplementary amendments to what is already a massive set of amendments will be presented this afternoon, not this morning, since they had just been presented at 10 o'clock.

The Chair: The standing order refers to submitting amendments two hours before the committee sits "when time permits."

Mr Pouliot: I understand that.

The Chair: We have just re-empowered a subcommittee to deal with these matters. And, Mr Phillips, no, that's not the way we want to operate things. We want to have the subcommittee set those procedures.

Mr Pouliot: Supplementary on the same point of order: You are intent on having all this process terminated by the end of today, right?

The Chair: I don't have an order to take this bill back to the House at any specific time. I would like to get through this bill. I think it's very important. I think the people of Ontario want us to get through this bill as expediently as we can do it.

Mr Pouliot: I might as well make this matter clear. Please bear with me; I don't wish to prolong this. This is a mess of biblical proportions. There is no question about it. As I just breezed through some of the agenda, it's obvious that this thing is ill-fated; the government does not know where it is going. The bill is also meshed. It does not work in isolation. It is webbed with other bills that are coming down the track, so unless we have some clarification, it will be very, very difficult for Ontarians to put this to work at the implementation stage after this receives third reading and then royal assent, and I'm concerned on behalf of Ontarians.

I know the way the exercise goes around here and that you're about to shove this down people's throats, having chosen not to listen to the dozens of presenters with all the sincerity at their command say to you, "Put the brakes on."

We'll be listening intently to your amendments, but we have no illusions here. We know that the fix is in and the people shall bear the brunt of it. We're not here to fully cooperate on this. We think this is too fast. We think you should put the brakes on, withdraw the bill, and come back with a final draft version in the fall session.

Mr Phillips: I would just say I honestly don't think the government has had the time to think the bill through. I think it's going to cause some real trouble out there. But at the same time, it will be even more trouble if the bill is delayed because we've heard from municipal leaders, the financial people and everybody else that this thing can barely get in under the wire with all good luck.

Frankly, I don't want our party to be seen to be holding it up. We've got real concerns about it and we've expressed those concerns, but in the end I don't want time to be blamed for fundamental flaws in the bill. We're prepared to live with the agreement that I thought the committee reached to deal with this. We will obviously be expressing our concerns on the bill, but the government will not be in a position to say, "Well, it was because the Liberal Party held up the bill." We have cooperated every step of the way on this bill, on the timing that the government wanted, and we will continue to do that, having expressed, as I say, significant concerns about the implementation of it.

Ms Isabel Bassett (St Andrew-St Patrick): First of all, thank you for your comments and your cooperation in that regard. I just wanted to remind everybody that it is our hope that we will finish this day so we can do the job as well as possible in the given time. We do have a House leaders' agreement, I understand, to try and finish today if we can so that we can move forward on this matter.

Mr Pouliot: Again, please accept my apologies. The House leaders' agreement dates back to Bill 103, and I understand that we had also a tentative agreement — in fact, a firm agreement — on Bill 104. But the government of the day chose to change the rules and to straitjacket the opposition so the many, many amendments that we had on Bill 104 — and they were all most valid amendments indeed to make the legislation better. The government changed the rules on us, so therefore I would see a jeopardy in terms of the overall agreement with the House leaders and it does not, therefore, have the same weight or the same significance at this time.

I can assure you that we, the third party, entered the negotiations vis-à-vis agreement on schedule candidly and with all good faith, but it became obvious that the intent and the tone was to drive the agenda of the government through, and we see it as an affront to democracy. So I'm not too, too sure where the agreement stands now among the House leaders because we feel that we've been straitjacketed and it was not the image of honesty, if you wish, in terms of negotiating.

Ms Bassett: That wasn't held out as any kind of threat. It was just an agreement that's there. I'm sorry, naturally, about your feelings. We'll have to proceed, I presume, and hope that you will overcome them.

Mr Pouliot: It'll take some time to heal. More important, it's the kind of legislation that reflects the very agenda of this government. When on the very day, we're presented with some 40 items to be amended, it does not convey confidence. Many of them are dealing with the dates, and if you intend to push them through, we will be asking for some brief explanation as to how they go to the heart of the bill, what remains the same and what changes. Those are fair questions that your committee should be able to entertain. A lot of them seem to be similar, but they push the dates back. This is in accord-

ance with what we, as the third party, had intended to say: "Put the brakes on, you're going too fast." What about implementation vis-à-vis levies? What about the interim levy? What about agreements that are not covered under force majeure, at the mall etc where there will be some dislocation? What about access to the slush fund?" We hope to find them in your agreement.

I will say no more. I'm here to listen and to cooperate.

1020

The Chair: We'll move on to clause-by-clause review of the bill. I will ask the clerk to identify the replacement motions when we get to the appropriate section so you can match up the replacement motions you have with the amendments already distributed.

Mr Phillips: Can I just ask one question? I'm sorry, Mr Chair. The Minister of Finance has indicated that the bill now permits different tax rates for small commercial properties. The original bill didn't, and I can't find the amendment that permits that. Can you just tell me which amendment permits that?

Mr Gerald Sholtack: It's not in this bill. The proposal will be contained in a subsequent bill that will authorize municipalities to establish multi-tiered tax rates for commercial property. It's not before this committee at this time.

Mr Phillips: So this bill right now only permits one tax rate on commercial property?

Mr Sholtack: It only refers to the prescription of one commercial class and the authority in the bill is for the municipality to establish one tax rate for that class.

The Chair: Could you please identify yourself for the record?

Mr Sholtack: My name is Gerry Sholtack. I'm senior counsel at the Ministry of Finance.

The Chair: With regard to subsection 1(1), are there any questions, comments or amendments?

Mr Phillips: Sorry, I'm just getting myself going.

The Chair: Shall the section carry?

Mr Phillips: Just so I'm clear on this, we're dealing with the Assessment Act amendments, correct?

The Chair: That's correct.

Mr Phillips: Are we dealing with current value?

The Chair: We're dealing with subsection 1(1). Shall the subsection carry? All those in favour? Carried.

Subsection (2), any amendments, questions or comments? Carried?

Mr Pouliot: We do have an amendment for subsection (2), I think.

The Chair: I have one for subsection (3), not for (2) at this time.

Shall subsection (2) carry? Carried.

Any comments, questions or amendments to subsection 1(3)?

Mr Phillips: There is an amendment here.

The Chair: Yes. Mr Pouliot. It's marked on your package as amendment 1.

Mr Pouliot: This came from public accounts. We'll have to stand it down.

The Chair: Do we have unanimous consent to stand down subsection 1(3)?

Mr Phillips: Actually, we had a very similar motion somewhere else in the bill, but it is to do exactly the same thing. I don't know whether Mr Pouliot is ready to debate this now, but it's a fairly important matter.

The Chair: We'll proceed with the NDP motion right now, please.

Mr Pouliot: I move that the definition of "current value" in section 1 of the Assessment Act, as set out in subsection 1(3) of the bill, be struck out and the following substituted:

"'current value' means, in relation to land, the value of the land based only on the current use of the land and not other uses to which the land could be put."

The Chair: Mr Pouliot has moved the motion which is number 1 on subsection 1(3). Can I have the agreement of the committee that I should not re-read the entire amendment? Is that agreeable? Thank you. Debate?

Mr Pouliot: Briefly put, this amendment changes the definition of the term "current value" so that it captures the notion of current use. This amendment would change the assessment reform contained in the bill so that it more closely approximates actual value assessment and would make it more fair. The bill, as written, would allow for all property in areas with high market values to be assessed similarly. The Crombie panel recommended that property assessment reform be based on "current value" and "current use" to avoid market-determined swings and speculative value. The bill allows municipalities to pass bylaws in order to use current use in determining value, but this amendment changes the entire bill by changing the definition and will make the assessment uniform for the province.

The Chair: Comments or questions?

Mr Phillips: Just to agree, actually, with this motion. We have one very similar to it later in the debate. The government's Who Does What panel studied this matter, and in their communication on August 20 they supported the amendment, as opposed to what's currently in the bill.

As we've talked to municipal leaders around the province, they are quite worried, as the bill currently stands, that, for example, some small businesses will have real difficulty because they may be operating in a facility which currently has one use, but if it were to be put on the market, would have perhaps a substantially higher use, but they will be valued at what it would sell for on the market, not what it's current value is, current value in terms of the business.

I think I would prefer to go with the NDP motion, and ours later, and agree with the Crombie panel.

Ms Bassett: I would just say that the whole basis of our system of actual value is current value, so obviously we can't support your amendment.

Mr Pouliot: We've been through this before, and at the risk of sounding repetitious — well, start from the premise of intent and spirit: What do you mean to accomplish? You put it on paper. No one has been able to establish any substantial difference between current value, market value, actual value. Everything I buy is market value. They all mean the same. Even a DNA expert, even a legislative forensic expert, even counsel would be hard-pressed. We know that the fix is in here.

This is to get off the hook for some promises, some documents that were circulated during the last election. Nobody believes you out there, and what we're trying to

do is to say, "Let's be fair about this." With respect, what we get as an answer is the kind of convenience or a feeble attempt at justifying what is essentially a repetition. It means exactly the same. In your dictionary of synonyms you would be hard-pressed to find any difference: current value would become market value; market value would become actual value. It's all the same.

Ms Bassett: If I could just add one last comment, I want to point out that at the committee hearings numerous presenters before the committee stated that value-based assessment is in their view the fairest and most equitable system available. The majority of municipalities have already been reassessed at least once during value-based assessment and have readily accepted it, so your view that nobody supports it is not right.

1030

Mr Pouliot: I see. So if I list a property at market value somebody will say, "Market value is not current value." Thank you very kindly.

Mr Phillips: Actually, we're almost talking about two different things here. No one is disputing the move to a market, current value system; it's just, what are your criteria for that? It's almost like we've got the wrong briefing note or something like that.

What the motion does is what Mr Crombie says, and that is to use a value system but to use value on the basis of its current use, not on the basis of what its possible use would be if it's put on the market. As I say, it's almost like we don't have the right briefing note in response to the question, but I've learned from experience that you eventually take a vote and you win, we lose.

The Chair: Shall the amendment carry? All those in favour? All those opposed? The amendment's defeated.

Shall subsection (3) carry? All those in favour? Carried.

I have no amendments for subsections (4), (5) or (6). Shall those subsections carry? Carried.

Shall section 1 carry? Carried.

We're on part I, subsection 2(1). Are there are any amendments, comments or questions? Shall the subsection carry? Carried.

On subsection 2(2), we have a government motion. It will now be number 2A, on the white pages that were distributed. I believe it will be the top page. It refers to subsection 2(2), so we'll call that motion 2A. Ms Bassett.

Ms Bassett: Did you say we don't have to read it?

The Chair: Yes, you have to read it, please. It's just that under ordinary circumstances formality is that I would then re-read it. It's not really necessary, and the committee agreed.

Ms Bassett: I move that subsection 2(2) of the bill be amended by adding the following as clauses to be added to subsection 2(2) of the Assessment Act:

"(d.1) providing for a procedure to determine whether land is conservation land for the purposes of paragraph 25 of section 3 and, without limiting the generality of the foregoing, the regulations may,

"(i) provide for the determination of any matter to be made by a person or body identified in the regulations,

"(ii) provide for a process of appealing such determinations,

"(iii) adopt documents by reference as those documents are amended from time to time, including amendments made after the regulation was made;

"(d.2) providing for a procedure to determine whether land is in the farmlands and managed forests property class and, without limiting the generality of the foregoing, the regulations may,

"(i) provide for the determination of any matter to be made by a person or body identified in the regulations;

"(ii) provide for a process of appealing such determinations;

"(d.3) providing for different procedures than the procedures provided in sections 39.1 and 40 for resolving issues as to whether land is in the farmlands and managed forests property class or whether land is conservation land for the purposes of paragraph 25 of section 3 and, without limiting the generality of the foregoing, the regulations may,

"(i) provide for the functions of the assessment commissioner or an assessor under section 39.1 to be carried out by a person or body identified in the regulations,

"(ii) provide for the functions of the Assessment Review Board under sections 39.1 and 40 to be carried out by a body or official identified in the regulations;

"(d.4) for the purposes of regulations made under clause (d.3),

"(i) varying the application of section 39.1 or 40 or any other provisions of this act,

"(ii) prescribing provisions to operate in place of section 39.1 or 40 or any other provisions of this act,

"(iii) prescribing provisions to operate in addition to section 39.1 or 40 or any other provisions of this act;"

The Chair: Did you want to explain or comment on the meaning of the amendment?

Ms Bassett: I can explain. This simply provides authority for the minister to prescribe procedures for determining land to be classified as farm land and managed forest, for land to be exempt as conservation land, and for appealing such determinations.

The Chair: Any comments or questions? Shall the amendment carry? All those in favour? Amendment 2A is carried.

Shall subsection 2(3) carry?

Mr Phillips: I don't mean to embarrass myself here, but give me a hint of exactly where we are in the bill.

The Chair: They are hard to read, actually, because the numbers don't stand out, but it says at the top, "4, 5, 6," and then you see "section 2." It's the one that's not in brackets. You go down there. We just carried an amendment to subsection (2), which is the "2" in brackets. We are now below that, at the "3" in brackets, which is subsection (3). I have no proposed amendments to subsection (3).

Mr Phillips: Okay.

The Chair: Okay, shall it carry? Carried.

Now we have a government amendment, which is for a proposed new subsection (3.1).

Ms Bassett: That's right. Since it's hard to find, it comes right after (3).

The Chair: That's right. That's where it would go.

Ms Bassett: I move that section 2 of the bill be amended by adding the following subsection:

"(3.1) Section 2 of the act, as amended by the Statutes of Ontario, 1994, chapter 36, section 1, is amended by adding the following subsection:

"Municipal option classes

"(3.1) A regulation prescribing classes of real property may require, for land in a municipality to be in a class, that the municipality opt to have the class apply within the municipality and the regulation may govern how the municipality opts to have the class apply or cease to apply. In this subsection, 'municipality' means a municipality, including a county, a regional or district municipality or the county of Oxford, the council of which is required under section 363 of the Municipal Act to determine tax ratios."

Briefly, this simply means that the minister may prescribe new classes of property that municipalities may opt to use.

Mr Pouliot: When we talked about classes, would I be right in saying that the devil will be in the regulation, in the detail, that the minister will decide what a municipality can do in terms of its options, so if it wishes to voice more classes or different classes, this will be determined by the minister?

1040

Ms Bassett: No. As the bill states, there are six classes of property now that are determined, but the minister may opt to prescribe new classes, and then the municipalities can opt or not opt to prescribe those classes.

Mr Pouliot: There are no changes with the present situation? The number and the state of classes will stay the same?

Ms Bassett: Of the ones that the municipalities must adopt, yes.

Mr Pouliot: And we're only talking here in terms of additional classes?

Ms Bassett: Yes, we are, that are optional.

Mr Phillips: What would be some examples of these? What's the government got in mind here?

Ms Bassett: The new multiresidential class would be one.

Mr Phillips: But don't we already have that in the bill? We have the multiresidential property class. You're thinking of another multiresidential property class?

Ms Bassett: Marion will answer.

Ms Marion Crane: I'm Marion Crane, from the Ministry of Finance. If the minister prescribed, for example, a new multi-res class, then the municipality could adopt that class if it chose to use that class. That new multi-res class would have a different definition than the multiresidential class has now. It could have different parameters in terms of what a new multi-res class is.

Mr Phillips: So you might have two classes of multiresidential property class?

Ms Crane: You'd have one multiresidential class that would be province-wide. If the minister prescribed this new multiresidential class, it would be a class which municipalities could opt to use but they wouldn't have to use if they didn't want to.

Mr Phillips: For example, he could opt to have a new class called "hotels/motels"? That's possible, right?

Ms Crane: In that particular example, those things would be included in one of the classes already there.

Mr Phillips: Say that again?

Ms Crane: The minister could prescribe a new class, yes, and the municipality could adopt that class if it wished to do so.

Mr Phillips: So hotel/motel is another example of what could be permitted with this amendment?

Ms Crane: It's not precluded, if that were to happen.

Mr Phillips: That's the purpose of this amendment?

Ms Crane: The purpose of this amendment is to allow something like a new multiresidential class.

Mr Phillips: Or hotel/motel.

Ms Crane: It would be a new class that the minister would prescribe, that the municipality could opt to use.

Mr Phillips: And that amendment would provide the option to do that.

Mr Almos Tassonyi: Mr Chair, I'm Almos Tassonyi. I'm a senior economist with the municipal finance branch.

Just to clarify Mr Phillips's question, the real purpose of this is to create a power whereby municipalities can put forward a request for a new class and it may be enabled by regulation.

In most cases, the properties in the new class would have previously been in one of the standard classes, but will have been taken out of that by definition in the regulation. The intent is to allow a different set of tax ratios and rates to then apply to the new class.

Mr Phillips: I'm trying to get an idea of why we're doing this. I hear another multi-res, which I can't quite figure out, because they're one of the six existing classes.

Ms Bassett: I think the intention is that we have flexibility, that if municipalities were to want something — I know you want to think we have X and this would apply to X and Y, but that boxes us into something that isn't there. The idea is to allow some flexibility if municipalities were to see a need that didn't fit into the six classes that were already there. This would, without having new legislation, allow us to accommodate their desires, more or less, because they could then opt into something that was prescribed, in effect.

Mr Phillips: I understand. I remember the hotel and motel people made quite a strong pitch to not do this. I just want to be sure that I know you are planning to do this, just so they don't get mad at me.

Mr Pouliot: I share the concern of my colleague Mr Phillips in terms of not having the motel and hotel association get too upset at us. This would simply be the last straw. It would be devastating.

Let me go back to the heart of this matter. It's established that on account of the changes to the BOT, the business occupancy tax, 10% or more of revenue will have to be found elsewhere. It will be lost.

Does this give municipal government the authority to tax, for instance, churches, places of worship, adjacent parking lots, or to go back to the bank tower, the people who stand to benefit the most, and say: "What you've saved on the dollars per square foot, the municipality will establish another tax, another levy so it can take its money back"?

Ms Bassett: I'm going to let Gerry answer this.

Mr Sholtack: No, this is merely to allow optional classes to be created. It has nothing to do with exemp-

tions or any other forms of taxation that aren't permitted now. An example of the new multi-res class was tabled with the draft regulations that were tabled at the beginning of the session. Section 8 of that draft reg talked about the new multi-res class.

The reason we're doing this amendment is to ensure that there's no question the minister has the authority to enact a new class, that the municipality has the option to adopt or not adopt. If the municipality doesn't want to adopt this new class, it doesn't have to, and it will continue to tax this property as part of the regular multi-res class.

Mr Pouliot: So at the moment you cannot say this. I can appreciate the high ethics and the protocol that you bring forward, but I attract another matter of humanity. So let me do this job, sir, and you can respond.

The minister does not wish to take the hit here. This is buck-passing. The municipalities had six well-defined areas of jurisdiction. They also have, by way of your amendment, an opportunity to establish supplementary options to raise revenue. We know by all accounts that the majority will take a hit. This is not revenue-neutral. What is yet to be verified are the other bills that are connected, webbed, meshed. Until we know their costs, it will be very difficult to ascertain, to determine what this will do in the real world.

We're asking, is this open-ended? Would the municipalities, upon request, by petitioning to the government, merely be informing them of their intent to go and raise the levy?

Mr Sholtack: Maybe I could clarify that. The minister has the discretion to make classes or not. This is not to be done in response to a municipality's request, necessarily. The government's intention is to provide that option in the case of the new multi-res class. It is provincial policy that will be implemented. It will permit municipalities to essentially tax these new buildings at less than what they tax the current multi-res buildings. It is intended as an encouragement to new construction. That's the example that we need the authority to implement. That's the basis on which we're seeking this amendment.

Mr Pouliot: By way of concluding comments, say I have a more humble, small existing building. I find that under another bill, Bill 98, I now pay development charges for the new one, plus they get a tax break. Am I going to be upset at the Tories.

1050

The Chair: Any further comments or questions? Shall the amendment carry? Carried.

From subsection 2(4) to (8), I have no proposed amendments. Shall these subsections carry? Carried.

Shall section 2, as amended, carry? Carried.

I have no proposed amendments for sections 3 to 8. Shall those sections carry? Carried.

Section 9: I have a government motion, one of the replacement motions, marked 4A. You'll see at the top that it refers to subsection 9(3) of the bill. What we'll do is deal with the proposed amendment first and then deal with the whole section.

Ms Bassett: I move that subsection 14(5) of the Assessment Act, as set out in subsection 9(3) of the bill, be amended by striking out "If a property is in two or more classes of real property" at the beginning and substituting "If portions of a property are in different classes of real property."

The Chair: Would you like to clarify this section?

Ms Bassett: Simply that the words "more classes of real property" really was before "or." We're changing the "or" to "of." It's a typo.

The Chair: Comments or questions? Shall the amendment carry? Carried.

I have no further amendments to section 9. Shall the section, as amended, carry. Carried.

I have no proposed amendments on sections 10 and 11. Shall those sections carry? Carried.

Section 12: There are a number of amendments. We'll start with the government amendment, replacement amendment 5A.

Ms Bassett: I move that subsection 19(5) of the Assessment Act, as set out in section 12 of the bill, be struck out and the following substituted:

"Farm lands and buildings

"(5) For the purposes of determining the current value of farm lands used only for farm purposes by the owner thereof or used only for farm purposes by a tenant of such an owner and buildings thereon used solely for farm purposes, including the residence of the owner or tenant and of the owner's or tenant's employees and their families or other buildings prescribed by the minister on the farm lands, consideration shall be given to the current value of the lands and buildings for farming purposes only, and in determining the current value, consideration shall not be given to sales of lands and buildings to persons whose principal occupation is other than farming."

The reason for the amendment is simply that it permits the minister to prescribe other buildings on farm property in order to value the underlying land at farm land values.

Mr Pouliot: I find it passing strange, bizarre, that you would enter a fairly risky field of determining. Who the heck are you, the government, to determine whether it's a citizen's main occupation, principal occupation, part-time, full-time? This is not part of the bill. You can be many things at one time. If you're guided by the tax policies and then you are determined, you go a step beyond. I would ask counsel, with respect, to at least issue a caution. We'll beat a path to the Human Rights Commission etc. This goes beyond the levy jurisdiction, to make it conditional, to base your case on the premise that you are or are not full-time or this is not your main occupation. It's very difficult to decipher, and you open quite a can of worms here.

Mr Sholtack: Maybe I could assure the committee that this is not a new provision. This provision has been in the act for many decades. It's designed to permit farm lands to be assessed at a farmer-to-farmer basis; it's a current use rule, basically.

Mr Pouliot: I understand this, which brings us to my real question: Suppose — and I need your help — I have a farm which is in transition. The developers are flirting. I am being solicited, I am being flattered, I meet my best friend every 10 minutes etc. A smaller part of the farm is being farmed, but I still refer to myself as a full-time farmer. Which profession do I belong to?

Mr Sholtack: Your land, as long as it's being farmed, will be eligible for this special treatment, this lower-evaluation treatment. In fact, you don't even need to farm it yourself; you can have a tenant farm it.

Mr Pouliot: Yes, Mr Rollins is the expert at that.

Mr Joseph Cordiano (Lawrence): I just want a point of clarification. It's in the same vein with respect to the principal occupation and the difference that might result between a person and a corporation. How is that rectified with this amendment?

Mr Sholtack: The only change from what is in the bill now is the addition of the words, "or other buildings prescribed by the minister." Other than that, it's identical to what's in Bill 106 now, and it is the same as what is in the current Assessment Act as subsection 19(3). There are just some word changes because of the change to current value. The occupation really doesn't matter. What matters is whether the land is being farmed or not. The addition of "other buildings" permits other buildings that are on farms, that do processing or other kinds of activities, to tap the value of the lower rates for the land on which they sit. That's the only purpose of this amendment.

The Chair: Further comments or questions? Shall the amendment carry? Carried.

We are proceeding to amendment 6. It's a Liberal motion on section 12.

Mr Phillips: I move that subsections 19(2), (3) and, (4) of the Assessment Act, as set out in section 12 of the bill, be struck out and the following substituted:

"Current value based on current use

"(2) The current value of land shall be based only on the current use of the land and not other uses to which the land could be put."

I further move that subsection 19(5.2) of the Assessment Act, as set out in section 12 of the bill, be struck out.

That is very similar to the original NDP motion that we debated. Consequently, there may not be a need for a lot of debate, but it was to attempt to implement the government's Who Does What panel recommendation on how to value land — land being, of course, property — and to reflect the concern of a lot of businesses and perhaps some homeowners that they will be assessed on the basis not of the current use of their property but on how it might be put on the market and that will drive their assessment way up and probably force them out.

Ms Bassett: I'd like to point out that we have defined what "current value" means, and we feel that it's fair and equitable. The opposition may disagree, but that's our view of it, and we've already discussed that.

Mr Pouliot: We are reminded with a certain authority that we have the right to disagree. Why don't we take all our amendments and file them in the garbage can? This is not what is intended here.

We could simply vote against all the clauses and therefore make this motion irrelevant by way of being out of order. But when we don't have more to offer — and I know our argument isn't the strongest on section 12. However, our sentiment is that if in doubt, we vote no. This is chaotic or has the risk of being chaotic. We sense a certain nervousness. You don't present us with a great deal of confidence. Everything is meshed, it's at the mercy; direct questions don't necessarily give us direct answers.

1100

We have our opinion, madame, with respect, and we'll take the hit one more time. But I want you to know that for every time we are reminded that we don't form a majority, we shall remind you, or certainly think it, that committees are not political, that this is not a political exercise. That's why we have committees, so that each and every one of us is not guided by an iron fist. No one is pointing the finger and saying, "You shall vote this way." When we say that we disagree, although the amendments have the sponsorship of their respective party, members are free to vote the way they wish.

You see, I am a member of the committee now. I am detached. Those amendments were scrutinized and prepared by our party, but once I'm here I can vote for or against. I am sure the other members would do the same thing. But it would appear that when you say "we," you involve your colleagues here and are saying that they don't have an independent mind. I have no doubt that you're right, but I only wish they knew their mandate better.

Ms Bassett: Thank you for pointing that out. I didn't mean to imply they don't have independent minds or that people don't have the opportunity to discuss.

The Chair: Further questions or comments? Shall the amendment carry? All those in favour? All those opposed? The amendment is defeated.

We will move to the same section, NDP amendment 7.

Mr Pouliot: It was identical.

The Chair: Pretty close; it looks close to me. You don't have to move it.

Mr Pouliot: Our amendment is actually out of order. We will withdraw.

The Chair: Withdrawn? Okay.

I have no further amendments to section 12. Shall section 12, as amended, carry? Carried.

Section 13: We will deal with the amendments first, NDP motion 9.

Mr Pouliot: I move that the table to subsection 19.2(1) of the Assessment Act, as set out in section 13 of the bill, be amended by striking out "1998, 1999" in the first column of the second row and by striking out "1996" in the second column of the second row and substituting "1997."

The Chair: Mr Pouliot, before we go to your clarification, I want to make sure that we have dealt with subsection 19.1. There are no proposed amendments for 19.1. Shall that carry? Carried.

Please go ahead and clarify your amendment.

Mr Pouliot: This and the following amendments significantly alter the time frame for implementation. The time frame suggested by these amendments is implementation for 2000. I did voice repeatedly to our parliamentary assistant, in terms of our concern vis-à-vis the implementation, that you were going too quickly and that you had overestimated the capacity of society to digest and assimilate all the changes that you're proposing.

This amendment is based on the many groups and individuals who appeared before committee urging the

government to put the brakes on, to slow down. There are 3.8 million properties to be reassessed in preparation for assessment reform. My understanding is that it's due by the end of April of next year, 1998. The reform will create large shifts in tax burden across the province and it is expected that there will be some 900,000 appeals; chaotic indeed, a mess.

It is crucial that the government takes its time in preparing the tax rolls for implementation. The year 2000 is based on the recommendation from Stanley Hamilton of British Columbia; he's a professor of urban land and economics. You're quite fond of referring to the example of the province of British of Columbia when it serves a purpose — and I'm not imputing motive. Yet when it serves another purpose, you conveniently disregard the example of British Columbia. If we're to quote an example, we'd like to see it whole, not just to pick and choose for political expediency.

What we feel is that you're going too fast; 3.8 million properties are about to be reassessed. Some of the assessors — it will be like instant coffee — are given as little as one day's training. They're poorly paid and they have to descend upon society and come up with a report. You already have in excess of 30,000 assessors and you're giving a bad name to the profession.

It's all going to be after the first interim tax levy. You'll have one final levy, which you're still not addressing. Imagine the mess. What we're trying to do is to help you, the government, do a better job. We're saying, do it but do it slowly. Change your timetable to give you a little more time and to deal with the dislocation, the vagrancy, that this kind of system is sure to bring.

There will be some severe discrepancies and if you have more time you'll best be able to deal with them, and therefore the acceptance of changes — because we are not opposed to change — will be more to your liking, certainly easier to digest.

Ms Bassett: I would reply to M. Pouliot that we feel there is not a need to delay, because the legislative and administrative processes are on schedule. I'd like to point out that municipalities in 29 of the 39 regions and counties have been recently reassessed and 47% of the province's 3.8 million properties to which you refer are valued on their 1988 or 1992 values, so they're more current. The reassessment is on schedule to finalize assessment updates by the end of December of this year. We feel there is no need for delay, but we do hear you.

Mr Phillips: The problem we have with the amendment is that we've got, as you know, some real concerns about the implementation of the bill and what not. At the same time, there are many who will benefit from the bill, so we are reluctant to slow the timetable down. We would much rather the government fix the bill than slow the timetable down. We'll have difficulty in amendments that would result in this thing being implemented more slowly. We would much prefer to see it done on this timetable, but properly. So, there we are.

Mr Pouliot: I hear on the one hand the confidence of ignorance, not knowing what lies ahead. It's nice to be candid, and yet on the other hand, I hear, "Don't call Kevorkian, government, you can do it all yourself." I mean, "Please push, we'll help you off the cliff; après toi, Alphonse." The minute the rubber hits the road, you've got so much on your plate that you will do so, and you're doing so at your own peril. But you are so confident, you know, the typical members of the First Brigade. They speak very highly of the First Brigade, but it so happens that they're all dead. We're trying to say, "Put the brakes on; in there you shall find an equilibrium." We want to wish you well. You don't perhaps fully believe that we're here only to help, that we don't have any ulterior motives, and the fact that you stole my job from me has nothing to do with our help.

The Chair: All those in favour of the NDP motion? All those opposed? The motion is defeated.

We're still on section 13, subsection 19.2(2). Motion 9 is an NDP motion.

1110

Mr Pouliot: In the same spirit, I move that subsection 19.2(2) of the Assessment Act, as set out in section 13 of the bill, be amended by striking out "1999" in the first line and substituting "2000."

It's in the same vein as the argument addressed to the two sections.

The Chair: Any comments or questions? All those in favour of the NDP motion? All those opposed? It's defeated.

Shall section 13 carry? Carried.

I have no proposed amendments on sections 14 to 21.

Mr Monte Kwinter (Wilson Heights): Could I have a question? I know that in subsection 1(3) there is a definition of current value: "means, in relation to land, the amount of money the fee simple, if unencumbered, would realize if sold at arm's length by a willing seller to a willing buyer." As a person who has been a real estate broker for many years, that is my definition of market value. I'm just curious to know. Subsection 20(2) under section 14 and subsection 24(1) under section 15 substitute "current value" for "market value," and I apologize I wasn't here for the earlier discussion. Has there been a definition of the difference between the two?

The Chair: I'd like to refer to the parliamentary assistant, please.

Ms Bassett: We have defined current value in the act and we can just read out how it's defined.

Mr Kwinter: I just read that. At our committee hearings, and I think even in the House, there have been indications that current value is different from market value, and I just want to know where that difference has been defined.

Ms Bassett: Where it is defined, is your question?

Mr Kwinter: Yes.

Mr Sholtack: If I could address that, the purpose of this is to reflect what the property could sell for. Market value could include highest and best use and so potential value, and the definition of current value is intended to preclude any speculative value that might be part of the value.

Current value is what you could realize your property for, if unencumbered, as of the valuation date, which for 1998 through to 2000 would be June 30, 1996. So it is what your property would realize in reality rather than with any speculative possibility that market value might impart. In our view, there is a distinction between those two concepts.

Mr Kwinter: Are you then saying that there are three classifications of value? There's actual use value, market value and current value?

Mr Sholtack: Yes, current use and current value are different concepts.

Mr Kwinter: Yes, but you're also saying that current value and market value are different concepts as well.

Mr Sholtack: Yes, we feel there is a difference between current value and market value.

Mr Cordiano: Based on what?

Mr Sholtack: Based on the definitions. The market value could be higher than current value, because current value is what the property can actually realize on the market.

Mr Kwinter: I would challenge that, I really would. Market value is what the property would realize on the market, and that is exactly the definition you've given for current value. I would suggest to you, without being partisan in any way, you're playing with words just to get away from market value, which seems to have a negative connotation, and you're going to current value. As I say, I would challenge you to get anybody who is objective to tell me that there's a difference between market value and current value.

Mr Cordiano: Where's the evidence?

Mr Kwinter: I'd welcome some sort of authority that gives that definition. It seems to me that we really are playing with words. I have no problem with you doing it as long as you acknowledge that is the case, but I do have a problem if I have to go out and defend that, no, there is a market value and then there is a current value.

Mr Pouliot: I need your help to guide me through this exercise. A friend of mine owns a small house in Toronto and he called the brokers one day, on the Monday. The price hadn't changed from Monday, Tuesday and Wednesday. He said, "What is the current value of my house that I'm trying to sell?" He got one price. The next day he called and he said, "What is the market value of the house that I'm trying to sell?" He got the same price. Then he called and he said, "What is the actual value of the house that I'm trying to sell?"

Mr Kwinter is absolutely right. Let's not play games. We know the background of this. Either you tell someone that current value is what it's worth today — if you look at Webster's or Oxford, they'll tell you. Market value is what the market will bear, so it's the same. Your current value is what the market will bear today. Actual value means what it is actually worth. We're not children here.

If I ask any real estate professional, "What is the difference between the three?" they'd say, "Gilles, you're talking about the same thing," in this context, and they're absolutely right. Current value is what it's worth today; market value is what the market will bear, therefore it is current; and actual value reflects the other two synonyms.

This is very thinly veiled. This is trying to really put one across, and I want to wish you well. But when all is said and done, what is it? We know what it is and we'll let it be. But trying to go to the general public and to try to decipher — nobody has come up with a good explanation. They've come up with a little feeble attempt that if you look under the cover of darkness, there is one little element here that's different to give legitimacy to the bill. But once you reach the street, everybody out there knows that there is no difference between the three.

Ms Bassett: I would just add that one of the ways that it is different is the way it's implemented. This is quite a difference.

Mr Cordiano: I just wonder how you plan to deal with the endless numbers of appeals that will be made trying to establish the difference between current and market value, because I can tell you, you're going to be subject to those appeals. This will come before the courts at some point, so the definition must be very clear, and it isn't to all those who have observed this and are interested in it. I'm sure there are endless numbers of people out there waiting for the same answer to this question: What is it?

Ms Bassett: We already have, as you know, a large number of appeals under the current system.

Mr Cordiano: You'll have even more after this.

Ms Bassett: Current value we define — and that will be the way the appeal system judges things as well: under the definition of current value.

Mr Cordiano: I still don't understand the difference. Perhaps we weren't apprised of it. I wasn't here for the other hearings that took place.

Ms Bassett: As M. Pouliot did point out, we could argue this endlessly, because there are different views.

Mr Cordiano: Given that it's such a flimsy definition that you're offering, you will get endless argument, and that's the point we're trying to make.

1120

Mr Kwinter: Just so there's no misunderstanding, I really have no problem with your using whatever term you want. If you want to use the term "current value," that's fine. Where I do have a problem is the implication that there is a whole other category of "market value." As a real estate professional, I can tell you that it's going to set off a chain reaction where people are going to say, "You mean to say there are other ways of valuing property and there is a difference between current value and market value?" That is my concern.

As I say, whether you use market value or current value, I have no problem with that at all. I do have a problem that on the record now there is a statement by officials of the ministry that says there is a difference. I say to you, that is going to set alarm bells running throughout the industry, to say: "There is a difference? What is that difference and how do we define it?" That is my concern. So far this bill does not in any way designate what the difference is. What I'm saying is that there are repercussions way outside this bill, because we've now had another classification injected into the real estate jargon. That is the problem. All I'm saying is that you're creating some problems outside this bill that should be addressed.

Ms Bassett: I would just read our definition one more time, because that's what they will be using: "'current value' means, in relation to land, the amount of money the fee simple, if unencumbered, would realize if sold at arm's length by a willing seller to a willing buyer."

Mr Kwinter: If I may, just one last thing. Until I got into government I taught a real estate course. I can tell you, that definition is the absolute verbatim definition for

"market value" — absolutely, without a change of word. When I taught my students, "This is what market value is," that was the definition. This is the concern I have, again nothing to do particularly with the bill. You are now saying to real estate professionals, "Just wait a minute, there's another definition," and that's market value. What is that definition? If you say, "I've read it to you," it's the same thing as current value. As long as we acknowledge that, I don't really care whether the bill says "current" or "market," as long as there's an acknowledgement that there aren't two separate kinds of evaluations.

The Chair: Are there any further concerns on a new topic? Shall sections 14 through 21 carry? Carried.

We are on section 22, government motion 10.

Ms Bassett: I move that section 22 of the bill be struck out and the following substituted:

"22(1) Clauses 34(b) and (c) of the act are repealed and the following substituted:

"(b) land or a portion of land ceases,

"(i) to be exempt from taxation,

"(ii) to be farm lands the current value of which is determined in accordance with subsection 19(5),

"(iii) to be conservation land or managed forests land the current value of which is based on current use under subsection 19(5.2), or

"(iv) to be land the current value of which is based on current use under regulations made under subsection 19(2);

"(2) Section 34 of the act is amended by adding the following subsection:

"Supplementary classification

"(2) If, after the October 31 preceding the taxation year and before the beginning of the taxation year, anything occurs that would change the class of real property a parcel of land is in, the assessor shall change the classification accordingly and the clerk of the municipality, upon notification of that change, shall enter it on the collector's roll and the tax levied for the taxation year shall be determined in accordance with the new classification."

This clarifies that where land ceases to be farm land, managed forests or conservation land, it will be valued on its current value rather than its current use, and it clarifies that where the classification of the land changes between October 31 and December 31, the assessor must alter the collector's rule to reflect that change. So it's an updating of records in this second part.

Mr Phillips: Can you just give us an example in real terms of what the implication of this is? What would be an example where something ceased to be a farm land where this would apply?

Ms Bassett: Gerry, I'll turn to you.

Mr Sholtack: This refers to class 6 land. People will have to qualify to be included in the special farm lands class, and where they cease to be so eligible, they will lose that special tax treatment. As well, their land will be revalued on its current value rather than on its current use basis. This provision allows the assessor to recognize that through a supplementary assessment. Where the land ceases to be farmed is an example; if it's being redeveloped.

Mr Phillips: I recall that the mayor of Brampton, I think, was in to see us and expressed some significant concerns around what this might do to the carrying costs for land. Does this help the mayor of Brampton or does it make him more angry or what?

Mr Pouliot: He's not running again.

Mr Phillips: You don't know the mayor.

Ms Bassett: I can't comment on whether it helps or hurts the mayor of Brampton.

Mr Phillips: No, his concerns. You were there, and he said he worries that if land is either farm land or immediately is assessed at its development value, the taxes on it will become so prohibitive that housing will be unaffordable. I think that's what he was saying to us. Does this have any impact on that or not?

Mr Sholtack: It won't change the current treatment as long as the farm land is being used and qualifies for the farm land treatment. This only deals with a situation where development starts, where the land is no longer being farmed.

Another example is managed forests, which is the other part of class 6. If the forest is no longer a managed forest and so eligible for special treatment, it will be revalued.

Mr Pouliot: I know the government is very, very sensitive to the inquiries coming from area code 905.

When it comes to managed forests, we're looking at a definition of, what is it, four acres?

Mr Sholtack: A minimum of four, yes. I'm sorry: It's 10 acres; four hectares.

Mr Pouliot: Thank you. That makes a big difference. I'm privileged to live in northwestern Ontario, where even people of moderate means like myself can possibly have access to a 10-acre property, because we measure things on a bit of a different scale and land is not as expensive, and we are cognizant first hand of good forest management. How would I qualify? You've mentioned, in terms of that, that I would have to be a full-time farmer, my main occupation. Would I have to be a full-time forester? You see, being of moderate means, I want to enact the savings on my taxes. I feel that I'm paying very, very high taxes, and the way this government is spending it, I'm not getting full value for money, so I want to minimize my taxes. Therefore, rather than buying eight acres, I buy 10 acres, because an acre doesn't mean all that much.

Mr Sholtack: The rules for determining what are eligible managed forests will be issued shortly. The ministry is finalizing them. But essentially they will set up a process which is similar to the rebate program that is now operated by the Ministry of Natural Resources. It'll be the same sort of idea. You'll have to qualify and have a management plan in place to maintain the managed forest.

1130

Mr Pouliot: Exactly that. With your help, we'll continue briefly. You drew the valid parallel, the analogy of the farm rebate, that it's closely tied with its cousin, the forestry rebate. So the municipalities will lose money, but what I gain with my 10 acres will I not lose on the house?

Mr Sholtack: This will only apply to the forested land.

Mr Pouliot: Yes, but you see, the province does not make up the difference. The municipality is lean and

mean. They cannot enact the savings by streamlining, by being more efficient. They've already done that. They've been doing that for five years. Now that they're not getting the money from my 10 acres, nor from my farm, what's going to happen to my property taxes? They've got one clerk-administrator, a receptionist and two Harry Smiths who drive the grader. Who's going to pay them? I guess I'll get hit on the house. It's of no benefit to me because even if it were revenue-neutral, there are no gains.

Mr Joseph Spina (Brampton North): With regard to the references made to the mayor of Brampton and his concerns, I can't speak for the mayor of Brampton because nobody speaks for him, but I can speak on behalf of my constituents since I do represent that area. We have 18 active farms, and in addition to that there is a substantial amount of farm land that has been bought by developers. Mr Hooshley, the gentleman who was here with Mayor Robertson, is the main individual associated with that development project.

This amendment would help us, and I know my constituents would be satisfied with this, in fact pleased, because a substantial amount of that development land will be undergoing the crossover at some point and they certainly would like the ability to protect that land as agricultural provided it is being farmed, and it would remain that way until such time as — the definition says until the land is scarred for development. Speaking on behalf of my constituents, that would be our position.

Mr Phillips: Just so I'm clear, right in the middle of the area I live in there's some land ready for apartments but every year they put a little wheat on it. That would remain as farm land, I gather.

Mr Spina: No, I think there are some fairly strict definitions with regard to being cultivated. Obviously, throwing a bush on it doesn't classify it as farm land. Counsel would be the one to better clarify that definition, but I think you have to use a little common sense on that. If they're getting away with it, that's a problem.

Ms Bassett: I just want to pick up on what Mr Pouliot said and his concerns that the municipalities may suffer from the loss of additional revenue. In the hearings, you probably heard that the province has set up a permanent $1-billion annual community reinvestment fund to ensure that the shift in responsibilities is fair and that the rural municipalities are not disadvantaged. That should allow them to —

Mr Pouliot: My understanding of the contingency fund —

Ms Bassett: It's a reinvestment fund.

Mr Pouliot: I mean the reinvestment fund; hereinafter called the fund. You're trying to have me swallow that market value assessment was to identify and price the new areas of jurisdiction, responsibilities, starting January 1 — we refer to it as the downloading — not to address the discrepancies by way of 106, not the difference in levy, not the difference in assessment and reassessment.

That's not where that $1-billion fund is. The $1-billion fund is for a place like Manitouwadge having to pay for the OPP, or a place like Schreiber where there is a more disproportionate number of senior people. That's what the fund is for. I'm not aware of a $1-billion fund any other place. It's too large an amount. There's nothing in place there to make those transitions. Well, if there is, there will have to be, especially those who depend more than 40% on the farm. We interviewed, and you were there. Some farming communities have 50% — in fact in one case, over 90% of revenues came from the farm.

Ms Bassett: We did, and your concern is very valid, Mr Pouliot. But you probably have forgotten that there is a fund — because we are aware of those concerns as well — that will make up the difference. Obviously, you can't leave municipalities hanging out there if they lose some of the revenue. They have to pay for it, and they're used to collecting more taxes. So there is the $1-billion annual fund that will help.

Mr Pouliot: There again, that point is well taken, and suffice it would mean there is a fund, but if we tax $1 billion, where will you take the $1 billion for the downloading, or are we talking about the same money? We must be talking about the same money.

Just one technical question. Once farm land changes its definition, like Mr Spina said, it goes from farm to non-farm, I guess — I need your help — or non-productive farm. Let's say a developer is looking at it. The property has to be reassessed. So somebody would apply to the assessment office and then an assessor, she or he, would come to the farm and it would come under a different definition?

Mr Sholtack: Yes. This is the authority for the assessor to revalue the property after the assessment notices have gone out for the following year or for that year.

Mr Pouliot: And they would have 90 days to do so?

Mr Sholtack: Yes. For example, if the bulldozers went on and started to develop the property in April, the assessment would be revalued for the rest of the year. It ceased to be farm land or the forest ceased to be a managed forest, and —

Mr Pouliot: And it's now the 407. But that doesn't apply. Okay.

Mr Sholtack: So the property will be revalued on its current value basis rather than on a current use.

Mr Cordiano: Could I ask just a follow-up question? For land that has been purchased and is going through a development process, and then the developer decides not to go ahead and that land sits idle, what happens to that land with the designation around current value? Where is the current value? The land still appears to be farm land.

Mr Sholtack: It has to be more than appears; it has to be farmed.

Mr Cordiano: So how would it be under your definition? What would be the current value of that land? Would it not be what it could actually sell for, given that it's going through a rezoning and now that value has been increased or enhanced, but the land hasn't actually gone through its physical transition?

Mr Sholtack: If we're talking about land that's being farmed, actively farmed —

Mr Cordiano: No, it's not being actively farmed. Let's go back to that. It's in transition. It sits there perhaps for two years, and in the case of the example that Mr Phillips used, it could be sitting there for quite some time. How do you establish whatever the current value is

for that land? This is a very graphic example, perhaps a better example than has been used thus far to determine the difference between current value and market value. The land's there and wheat is growing on the land, yet it's gone through the rezoning process, the application has been made and then suddenly the developer stops.

Mr Spina: Wheat is growing on it?

Mr Cordiano: Well, whatever is growing on it, weeds, I couldn't care less. It still looks like farm land. How do you answer that? How do you make the distinction?

Ms Bassett: Mr Cordiano, you raise a good point, and we are looking at that in an upcoming bill. We will be looking at farm lands pending development and raising the issues such as those you're talking about right now.

Mr Cordiano: That's a huge gap, a huge grey area.

Ms Bassett: It is.

Mr Cordiano: You haven't answered that question and you're asking us to approve this piece of legislation.

1140

The Chair: Any additional concerns or questions? Shall the amendment carry? Carried.

Shall the section, as amended, carry? Carried.

We move on to section 23: There's a government motion 11, on the beige pages.

Ms Bassett: I move that subsection 35(1) of the Assessment Act, as set out in section 23 of the bill, be struck out and the following substituted:

"Notice and complaint

"(1) The owner and the tenant or tenants of land in respect of which a notice of assessment under section 32 is delivered or transmitted or that has been assessed under section 33 or 34 or classified under section 34 shall be notified and be entitled to complain as if the assessment or classification had been regularly made and the assessment roll was returned 14 days after the day of mailing of the notice of assessment."

This is really a technical amendment. It clarifies that where there is a classification change in a supplemental assessment, owners and tenants of land have the right to appeal.

The Chair: Comments or questions? Shall the amendment carry? Carried. Shall section 23, as amended, carry? Carried.

I have no amendments or motions regarding sections 24 and 25. Shall those sections carry? Carried.

Section 26: I refer you to government motion 12 on your beige pages.

Ms Bassett: I move that clause 40(1)(e) of the Assessment Act, as set out in subsection 26(1) of the bill, be struck out and the following substituted:

"(e) for land, portions of which are in different classes of real property, the determination of the share of the value of the land that is attributable to each class is incorrect."

This is a technical amendment. It clarifies that where portions of a property are assigned to different property classes, the amount allocated to each class can be appealed.

Mr Kwinter: I've read both the original and the amended, and although the wording is slightly different, I don't see what intent is different. Could you clarify for me why it's different?

Mr Sholtack: The present wording refers to land that is in two or more classes, and we want to clarify that land cannot be in two classes. The change was made to refer to portions. It's the portions that are in discrete classes; the property itself could be divided between two classes. That's the purpose of the amendment. Just to make it clear, if you've got a property that contains a commercial part and a residential part, each part would be in its separate class.

The Chair: Further comments or questions? Shall the amendment carry? Carried.

I refer you to amendment 13. It's a government motion on subsection (26).

Ms Bassett: I move that subsection 40(13) of the Assessment Act, as set out in subsection 26(4) of the bill, be amended by adding at the end "unless it is appealed under section 43(1)."

This merely clarifies that the Assessment Review Board's determination of a question of law is always subject to appeal to the Divisional Court.

The Chair: Comments or questions? Shall the amendment carry? Carried.

I refer you to NDP motion 14, in the beige pages. It's regarding subsection 26(4).

Mr Pouliot: I move that subsections 40(14), (15) and (17) of the Assessment Act, as set out in subsection 26(4) of the bill, be amended by:

(a) striking out "1998" in each place it appears and substituting "2000";

(b) striking out "1999" in each place it appears and substituting "2001";

(c) striking out "2000" in each place it appears and substituting "2002";

(d) striking out "2001" in each place it appears and substituting "2003"; and

(e) striking out "2002" in each place it appears and substituting "2004."

If I missed one street in the city of Toronto, I'll come back with another amendment.

All this amendment does is move the time frame closer to the year 2000 after the next election.

The Chair: Comments or questions? All those in favour of the NDP motion? All those opposed? The motion is defeated.

I have no further amendments to section 26. Shall section 26 carry, as amended? Carried.

Section 27: I have no amendments to section 27. Shall section 27 carry? Carried.

I have no amendments to sections 28 to 30. Shall those sections carry? Carried.

Section 31: I have a government motion.

Ms Bassett: I move that subsection 46(1) of the Assessment Act, as set out in subsection 31(1) of the bill, be amended by adding at the end "or a determination that lands are conservation lands for the purposes of paragraph 25 of section 3."

This clarifies that the review of the determination of eligible conservation land will be made by a prescribed tribunal rather than by application to the Ontario Court.

The Chair: Comments or questions? Shall the amendment carry? Carried.

There are no other amendments to 31. Shall the section, as amended, carry? Carried.

I have no amendments to section 32 or 33. Shall those sections carry? Carried.

Section 34: I have an NDP motion, number 16 on your beige pages.

Mr Pouliot: We withdraw. I was simply recommending that —

The Chair: I'll clarify. It's not an amendment; it's a motion.

Mr Pouliot: Thank you, Chair. We heard you loud and clear. We're simply recommending that the committee vote against section 34.

The Chair: Further comments or questions? All those in favour of section 34 carrying? Carried.

I have no amendments on sections 35 to 52. Shall sections 35 to 52 carry? Carried.

Section 53 of the bill: I refer you to government motion 17.

Ms Bassett: I move that the definition of "tax rate" in section 361.1 of the Municipal Act, as set out in section 53 of the bill, be amended by striking out "three decimal places" in the third line and substituting "six decimal places."

The reason for this is really for accounting purposes. I'll read it: "The tax rate will now be six decimal places instead of three decimal places to reflect the change from mill rate to tax rate and to prevent the loss of revenue through rounding out of figures."

The Chair: Comments or questions? Shall the amendment carry? Carried.

Shall section 53, as amended, carry? Carried.

I have no amendments to section 54. Shall section 54 carry? Carried.

1150

We'll move on to section 55. We start with government motion 18.

Ms Bassett: I move that subsection 363(1) of the Municipal Act, as set out in section 55 of the bill, be struck out and the following substituted:

"Establishment of tax ratios

"(1) A set of tax ratios for every municipality shall be established in accordance with this section.

"What tax ratios are

"(1.1) The tax ratios are the ratios that the tax rate for each property class must be to the tax rate for the residential/farm property class. The tax ratio for the residential/farm property class is 1."

The reason for this is that we needed a benchmark, and this clarifies that the tax ratio for the residential/farm property class is 1.

The Chair: Comments or questions? All those in favour of the amendment? Carried.

I'm moving to Liberal motion 19, on the same section.

Mr Phillips: I just alert the committee that in some respects the next four motions are a package. I guess we have to deal with them one at a time, but they have to be taken in a total context. I'll move the first one and then we can debate the reasons for it.

I move that subsections 363(2), (3) and (4) of the Municipal Act, as set out in section 55 of the bill, be struck out and the following substituted:

"Municipal bylaw

"(2) The council of a municipality shall pass a bylaw on or before March 15 in each year to establish the tax ratios for that year for the municipality."

If I can explain what we're attempting to do, there is a flaw in the bill that's going to cause municipalities a fair bit of difficulty. In our opinion, it's this: In a two-tier system, the tax ratio — I hope I've got the terminology correct — must be the same for the upper tier and all the lower tiers unless there's agreement to allow the lower tiers to set their own tax ratios.

The limit on the tax ratio, as we understand it, is the total for the two tiers; that ratio is then the maximum ratio. For example, if, when all the numbers are added up — the motion we just passed — residential is 100, the commercial will be something higher than that almost without exception, maybe 200 or 250 or 300. But it may very well be that at the lower tier there are municipalities with a ratio of 200 and municipalities with a ratio of 300, a different one. The one with the 300 will not be allowed to use the 300, as we read the bill; it will have to use the 250, if that's what the region is. The bill handcuffs municipalities.

It was in Ottawa that we heard this, from Hawkesbury, I think. I'm not sure of that. I think it was one of the municipalities in that area. These four amendments, as a package, are designed to give the flexibility so the lower-tier municipality does not have to use the upper-tier municipality's ratios, because there will be maximums set on it that will be lower than the existing ones. That's a layperson's explanation, my explanation of it, anyway. That's the intent.

Ms Bassett: I know what you're saying. As you know, in this bill the highest level of government establishes the tax ratios. We would say this allows two property owners who own similar properties of the same value in the same upper-tier community, getting the same upper-tier services, will pay the same taxes. That's the principle. We feel the government can delegate its power to the lower tier. Lower-tier governments would still be accountable, however, for how much tax revenue they require. By letting the upper tier set tax ratios, it results in only one set of ratios for a given property tax bill, and this makes the system simpler and easier to understand.

Giving the lower tier the power to set ratios would also increase the potential for tax competition to attract business, because you could have different rates.

I feel this allows the best of both worlds, really. What you argue, that the lower tier can set tax ratios, is permissible if it's delegated by the upper tier.

Mr Phillips: I think this is going to cause some difficulties if it proceeds. In the end, all we in opposition can do is alert you to it, give the solution, and hope we don't have to say, "We told you so."

The Chair: Further comments or questions? All those in favour of Mr Phillips's motion? All those opposed? The motion is defeated.

We'll move to Liberal motion 20. I don't know, Mr Phillips, if you want to consider —

Mr Phillips: I could move all three of these at the same time, if you'd like.

The Chair: I thought you might like to withdraw them.

Mr Phillips: I would like to get them on the record.

The Chair: If you want to go ahead, we can discuss them all at once. We have to have three separate votes, that's all.

Mr Phillips: Do I need to read them all? I would be happy to read them all. I want them on the record.

The Chair: You should read them all.

Mr Phillips: I move that clause 363(7)(a) of the Municipal Act, as set out in section 55 of the bill, be amended by striking out "subsection (2) or (3)" and substituting "subsection (2)."

I move that clause 363(9)(c) of the Municipal Act, as set out in section 55 of the bill, be amended by striking out "subsection (2) or (3)" in the fourth and fifth lines and substituting "subsection (2)."

I move that section 364 of the Municipal Act, as set out in section 55 of the bill, be struck out.

That was the discussion we just had. That was the last three parts of the same process.

The Chair: Are there any comments or questions on those three amendments, which have a similar purpose and meaning?

We will vote on Liberal motion 20. All those in favour? All those opposed? The motion is lost.

Liberal motion 21. All those in favour? Opposed? The motion is lost.

Liberal motion 22. All those in favour? Opposed? The motion is lost.

The committee stands recessed until after routine proceedings today.

The committee recessed from 1200 to 1553.

The Chair: The last thing we did before the recess was that there were four Liberal amendments defeated. We are on page 21 of the bill, section 55. Under section 363, I have no amendments on subsection 363(1), (2), (3), (4), (5) and (6). Actually, I have no amendments right through to section 368. Shall those sections carry? Carried.

There are no amendments to section 369. Shall the section carry? Carried.

Section 370, a government motion.

Ms Bassett: I move that subsection 370(1) of the Municipal Act, as set out in section 55 of the bill, be struck out and the following substituted:

"Interim levy, local municipality

"(1)For 1999 and subsequent years, the council of a local municipality, before the adoption of the estimates for the year, may pass a bylaw levying a separate tax rate, as specified in the bylaw, on the assessment in each property class in the local municipality rateable for local municipality purposes."

And I further move that section 370 of the Municipal Act, as set out in section 55 of the bill, be amended by adding the following subsections:

"Interim levy for 1998

"(7) For 1998, the council of a local municipality may pass a bylaw levying special tax rates on the assessment of property in the municipality rateable for local municipality purposes.

"Rate can differ

"(8) Despite section 362, the tax rates to be levied under subsection (7) may be different for different properties.

"Restrictions

"(9) The tax rates to be levied under subsection (7) must be set so that the amount raised on the property does not exceed 50%, or a lesser percentage if such a percentage is prescribed, of the taxes levied on the property in 1997, including business taxes levied on persons carrying on business on the property.

"Application of subsections (2), (5) and (6)

"(10) Subsections (2), (5) and (6) apply, with necessary modifications, to a bylaw under subsection (7) and amounts levied under subsection (7)."

The interim levy for 1998 clarifies that the taxes raised for interim purposes in 1998 cannot exceed 50% of the total business and property taxes for 1997, and the interim levy for 1999 and subsequent years clarifies that current provisions in the bill providing for raising interim levies apply to 1999 and subsequent years.

Mr Pouliot: I need your help here. Under the present system, you have your interim tax levies, so you go early in the year and you go to the maximum that the statutes allow, which is 50%. I would assume, given the pressures at the municipal level, people pretty well comply as much as they possibly can. I've heard you mention that under the interim levy, you could go to a new class of taxes providing you don't surpass or exceed 50%. Is that right? Within that 50% you can rearrange? Is that what you're saying? Or is it supplementary to the 50%?

Mr Tassonyi: Mr Chair, if you'd like me to address this for Mr Pouliot, the purpose of the 50% rule, basically, in the previous statute was to set a ceiling on the interim levy, as you point out. In this case, this amendment clarifies that on, say, a commercial property, the properties which had previously been the business taxes assessed to the tenants would also be included in the total of the taxes to which the 50% could apply on a property.

Mr Pouliot: Yes. As human frailty, knowing that your appetite is more insatiable than ever, I was banking on consistency, that in your dumping your responsibility on to the backs of municipalities, you would not hesitate and you would allow them to do whatever they wish. They could go to the marketplace and fleece an additional 20% or 30% as long as you could wash your hands, and that would have been consistent with your bill. So there's a departure here. It's still the same thing, except that you have more flexibility at the commercial level. Thank you.

Mr Phillips: Just so I'm completely clear on this, because the municipalities were quite worried about part of this, let's take the old bank tower. It pays realty taxes right now of — I don't know — $15 million, and the occupants pay business occupancy tax of roughly seven million bucks: $22 million. As I understand it, this would permit the new city of Toronto to send an interim tax bill for $11 million realty tax.

Mr Tassonyi: Essentially that's correct, maximum. There is some ministerial prerogative to set limits as well in subsequent sections.

Mr Phillips: But in no cases can anyone send out a tax bill that is more than 50% of the combination of BOT and realty tax from the previous year.

Mr Tassonyi: That's correct.

Mr Phillips: So the worry that the municipalities have, which is that the bank towers are going to be extremely

pleased come May of next year when you send the final tax bill out and you say to them, "Well, you had an $11-million interim tax bill, but your second is only going to be $5 million," for the small business that will see substantial increases if their business occupancy tax is only 20%, they cannot send an interim bill out higher than 50% of the previous year's combination of realty tax/business occupancy tax?

1600

Mr Tassonyi: The 50% limit applies to the previous year's no matter who the business owner is, whether it's a bank tower or a small business, as long as it's the commercial landlord that is getting the bill. Essentially, it does deal with the municipal concern that's been raised to you and to us.

Mr Phillips: Actually, I think what they were saying, if I might, was, "Would you permit us to send out an estimate of the 50%?" not, "Will you allow us to send out the combination BOT/realty tax?" I thought that's what they were saying.

Mr Tassonyi: I guess that depended on who you were talking to. We've certainly had representations from the municipal associations and from others requesting that we look at the flexibility involved in dealing with this issue.

Mr Phillips: Is this what AMO wanted?

Mr Tassonyi: I believe it's pretty close to what AMO had requested.

Mr Pouliot: Do you have an impact study, some example of what this does to your final levy, which will be in the mail five months after the interim, so it will be quite close?

Mr Tassonyi: There are so many things that will be changing as a consequence of this system once it's finally realized that I don't have any specific calculations to indicate which way a final tax bill will go for any particular ratepayer. In consequence, in the bill there is provision for municipalities to make adjustments if a ratepayer has been overcharged or to deal with any circumstances to adjust the bill appropriately.

Mr Pouliot: Chair, we suggest that our timetable be altered for the very reason that this presentation changes by the day, if not by the week.

I'll be brief. I went to the House today. This morning I knew that starting in January, because they run a different fiscal year, my small property would not be subjected to education taxes. I also read that in lieu of that, there would be new responsibilities at the municipal level which would reflect on the levy under general purpose. I'm told by way of the minister — and I have to believe what the minister says, of course; it's the voice of the government in these matters. Now I'm back not to 100%; now it's 50%.

I don't know about Miss Jones having slipped in the bathtub and needing a hip replacement. Who's going to pay for what and to what extent? What about rehabilitation? I still don't know all of these things. Simply put, we've asked for an impact study. I know you have too. Give us the database that you know — and if you don't know, it's becoming sort of predictable; we understand that, and things are liable to change.

The thing is, a short time before the municipal election you have reassessment, you have Bill 98, development charges, and you have all this downloading, but we don't know who pays for what and who's responsible for what in such a short time before the transition.

I asked a very simple question, and I think it goes to the heart of the matter. Someone owns a mall and I have a long-term contractual arrangement, 10 years. It suits the mall owner; it suits me. When you shake the can and you come up with levies, your margin is 8%. There will be some cases your impact is to the tune of 15% to 20%. There's no force majeure. There's no contingency in my contractual arrangement. Who's going to pay the difference? What kind of new relationship will we have to do?

When you ask that, people don't give you the answers. They don't know. When you ask about ramifications, they say, "Well, tighten up your belt." When 60% of the levy on a small farm town has been taken away by way of rebate, people say: "Well, they'll have to tighten up their belts. You tighten up your belt." No two situations are alike. It's frustrating because in some cases you can only tighten up your belt so much. In one case, it's 95%, and somebody says, "Well, they can tighten up their belts." They might as well fold or amalgamate. You cannot amalgamate overnight. There are terms and conditions attached to that.

We're saying we should maybe take a little more time. It's frustrating. We have no database, no examples. We know that Oakville is losing $18 million at the two car plants. We don't know who's going to make up the slack. It's 18 million bucks. Is it the commercial or the residential or both? We know that the biggies — and I don't want to malign them — are saving 18 million bucks. The money has to come from someplace. I don't mind if they save $18 million, but who's going to pay? No answer.

Ms Bassett: I want to just say that preliminary data — this is without answering all the things because of time not permitting — will be ready this fall, and detailed data will be ready early in 1998, so people can plan on that.

The Chair: Further comments or questions? Shall the amendment carry? Carried.

I have no further amendments on section 370. Shall the section, as amended, carry? Carried.

Section 371: We are looking at a government motion.

Ms Bassett: I move that subsection 371(1) of the Municipal Act, as set out in section 55 of the bill, be amended by adding the following clause:

"(c) prescribing a percentage that is less than 50% for the purposes of subsection 370(9)."

I further move that section 371 of the Municipal Act, as set out in section 55 of the bill, be amended by adding the following subsection:

"Prescribed percentages can vary

"(2.1) A regulation under clause (1)(c) may prescribe different percentages for different property classes and for different properties within property classes."

This allows for the Minister of Municipal Affairs and Housing to prescribe interim levies of less than 50% for 1998. A similar provision, as you know, already exists in the bill for 1999 and subsequent years.

The Chair: Questions or comments? Shall the amendment carry? Carried.

Shall subsection 371(1), as amended, carry? Carried.

The next motion I have is Liberal motion 25.

Mr Phillips: I move that section 55 of the bill be amended by adding the following section to be added to the Municipal Act:

"Reimbursement for reductions on farm land

"371.1(1) For each year, the minister shall pay a municipality an amount to compensate the municipality for the reduction in the municipality's tax revenue due to the elimination of provincial funding for the farm tax rebate program.

"Calculation of amount

"(2) The amount the minister shall pay under subsection (1) is difference between,

"(a) the amount that would be levied on the farm land in the farm land and managed forests property class if the tax ratio for the class was 1; and

"(b) the amount that is levied on the farm land."

By way of explanation, this was something the Ontario Federation of Agriculture was concerned about. While they welcome the change in program from the farm tax rebate to the reduction in property tax, they recognize that the province used to pay and takes it off their books, but it's the municipalities that are going to have to pick up the lost revenue. The Ontario Federation of Agriculture was concerned that because the government has essentially moved the cost off themselves on to property tax, on to the municipalities, it's putting the farm community in a difficult spot. What they asked for or suggested, although this is not their wording, was that we find some vehicle for making certain that the municipalities aren't out the money. That's the intention of it.

1610

You may recall that AMO recommended not proceeding with changing the classification of farm to 25%. I think this is a potential compromise for both AMO and the Ontario Federation of Agriculture.

The Chair: I have to rule the motion out of order because it contravenes standing order 56. It directs the allocation of public funds.

Mr Phillips: I appreciate that. If a government member were to move the motion, is that possible?

Clerk of the Committee: Only the minister can move it.

Mr Phillips: Only the minister can move it. I had a feeling some of the government members might want to move it.

The Chair: We're now considering subsection 371(3), NDP motion 26.

Mr Pouliot: It's in terms of the time frame implementation. We have some sections that are fairly lengthy, and I would ask unanimous consent that they be deemed to have been read, and I can give a very brief argument as to our rationale behind these.

The Chair: Are you looking at 26, the same one I am? It's not a long one.

Mr Pouliot: I'm looking at section 55, subsections 372(1), (2), (3) and (5).

The Chair: It's numbered at the top on my pages as 27. There's another motion on subsection 371(3), an NDP motion, number 26. Do you have a copy of that? It's just the page before.

Mr Pouliot: All I have are summaries that, being anecdotal, don't follow the act. I'm sorry.

The Chair: We'll get you a copy.

Mr Pouliot: This is just a matter of implementation, Chair. We'll get to the next one.

I move that subsection 371(3) of the Municipal Act, as set out in section 55 of the bill, be amended by striking out "1998" in the second line and substituting "2000."

The Chair: Comments or questions? Those in favour of the NDP motion? Those opposed? It's defeated.

Shall subsection 371(3) carry? Carried.

Shall section 371, as amended, carry? Carried.

We're on section 372, NDP motion 27.

Mr Pouliot: This is a little more than two pages. This amendment requires municipalities to phase in the assessment-related changes on an interim basis, equally if you wish, over a period of eight years. We feel that by doing it one eighth at a time, the chances of dislocating and of severely impacting the system are reduced. It gives people a chance to prepare for the task ahead.

The current bill allows for an option on phase 8, but only too commonly, if you're pressed for money, you shall go where the money is. You would wish, perhaps, to implement to have more flexibility, but if you're not forced to do so, you won't do it.

The Chair: Mr Pouliot, do you want to read the motion or do you want to have it deemed as read, with unanimous consent?

Mr Pouliot: Deemed as read; that's why I'm offering the comments in lieu of.

Interjections: Agreed.

The Chair: Agreed. Do you want to have further comments and questions?

Mr Pouliot: If they wish. I know the fate of this motion. Why not save the time? You're not listening anyway.

The Chair: All those in favour of the NDP motion? All those opposed? It's defeated.

In the white pages we gave you this morning, there is a government motion on subsection 372(3) of section 55 of the bill.

Ms Bassett: I move that the French version of the definition of "1997 taxes" in subsection 372(3) of the Municipal Act, as set out in section 55 of the bill, be struck out and the following substituted:

«'Impôt de 1997' À l'égard d'un bien, s'entend en outre des impôts imposés à ce titre aux personnes qui y exercent une activité commerciale.»

It's simply a change to the French version.

Mr Pouliot: It's the same amount in both languages, I take it.

The Chair: Any comments or questions? Shall the amendment carry? Carried.

Subsection 372(9): An NDP motion, number 28.

Mr Pouliot: I move that subsection 372(9) of the Municipal Act, as set out in section 55 of the bill, be amended by striking out "1998" in the third line and substituting "2000."

The Chair: Comments or questions? All those in favour of the NDP motion? All those opposed? It's defeated.

We're moving to government motion 29.

Ms Bassett: Since it's fairly long, perhaps I could have the motion deemed to be read in. No? All right, I'll read it in.

Mr Rollins: Are we going to vote on section 372 now?

The Chair: Shall section 372, as amended, carry? Carried.

Ms Bassett, please go ahead.

Ms Bassett: I move that subsection 373(1) of the Municipal Act, as set out in section 55 of the bill, be struck out and the following substituted:

"Tax relief for low-income seniors, etc

"(1) For the purposes of relieving financial hardship, the council of a municipality, other than a lower-tier municipality, may pass a bylaw providing for deferrals or cancellation of, or other relief in respect of, all or part of assessment-related tax increases on property in the residential/farm property class for owners who are, or whose spouses are,

"(a) low-income seniors as defined in the bylaw; or

"(b) low-income persons with disabilities as defined in the bylaw.

"Tax relief must be given

"(1.1) The council of a municipality, other than a lower-tier municipality, shall pass a bylaw under subsection (1)."

I further move that subsections 373(5) and (6) of the Municipal Act, as set out is section 55 of the bill, be struck out and the following substituted:

"Application to lower tiers

"(5) A bylaw of an upper-tier municipality providing for a deferral or cancellation of tax increases or other relief in respect of tax increases also applies with respect to the tax increases of its lower-tier municipalities.

"Amounts transferred by lower-tier municipalities adjusted

"(6) If a lower-tier municipality levies a tax rate for upper-tier purposes in respect of which there is a deferral or cancellation of tax increases or other relief in respect of tax increases, the amount of taxes the lower-tier municipality shall pay the upper-tier municipality shall be reduced accordingly.

"Deferred taxes, payment to upper tier

"(6.1) If a lower-tier municipality levies a tax rate for upper-tier purposes in respect of which there is a deferral of tax increases the lower-tier municipality shall pay the upper-tier municipality its share of any deferred taxes and interest when they are paid."

This, it seems clear to me, requires municipalities to provide a deferral, cancellation or other relief in respect of assessment-related tax increases for low-income seniors and low-income disabled owners and/or their spouses.

1620

Mr Phillips: This is probably timely. During the committee debate Mr Ford was a fairly strong advocate of this, of the reverse mortgage. Actually, it was a coincidence that he mentioned it and literally a couple of days later the ads started coming out for these things. It looks like you have created a new industry here.

This one says, "Concerned Seniors Pay Property Tax the Easy Way," which is what everybody looks for, I guess. "With the threat of megacity comes the possibility of increased property taxes. This will affect everyone, but the hardest hit will be seniors." It goes on to outline the plan here, which is, "This leaves the homeowner to enjoy the full benefits during their lifetime, knowing that it does not require repayment until they die."

I gather that's the intent of this thing, to permit peace of mind until people die: reverse mortgages. Is that what the —

Ms Bassett: You're right in that it is outlining the intent. It's up to the municipalities to decide what they want to do. Some municipalities, as you know, because reassessment has already occurred, will not be affected; in fact, for three quarters of them this will not be an issue.

Mr Phillips: Is there mention later on in these amendments of the support the province is providing for this? Is that covered in a later amendment?

Ms Bassett: No, it is not. We are outlining the intent and it's up to the municipalities to decide to do what they wish within the outline.

Mr Phillips: I noticed today's announcement that the municipalities have picked up roughly another $650 million to $700 million of costs. Has AMO indicated that they can afford this, or have you put a cost estimate on what it might cost?

Ms Bassett: It's up to the municipalities to decide if that's what they want. It's premature to talk about who does what right now.

Mr Pouliot: I wish that one of our colleagues had indicated that reverse mortgages are a court of last resort for many people. What shocked me was that, first of all, they cost anywhere from 1.5% to 2% more than conventional mortgages, without the flexibility and choice of product afforded with conventional mortgages. Also, you must have reached a fairly high equity in the property, far more than to secure a mortgage under the terms of CMHC. All those rules go by the board when it comes to a reverse mortgage, which is a convenience.

If that's the kind of legacy you want, I suppose you should look at the next amendment of the NDP, which offers an opportunity to respect the human dimension, and nobody goes broke in the process.

Ms Bassett: I would just point out that the municipalities can provide a deferral or cancellation or other relief in any case.

Mr Pouliot: You know, I don't want to say things I will regret, but it's like saying to someone: "Here's $10. Go to the cinema; buy yourself a popcorn and a soda." Now this government is saying: "Here's $5. You can do whatever you wish with it. You're free." It's always, "The municipality can do this," "The municipality can do that." You have the courage to say to a municipality, "If you wish, you can charge less than the 50% tax levy." They can charge less than 50% if they wish now. The thing is that they will not have the means to do so. They'll be forced to charge the 50%; 90% of them are already charging the 50%, because that's what the statutes allow.

It's not a newly found flexibility. You still write the rules, you still write the standards — you do it by statutes and by regulation — and you forget to put the cheque in the mail. When we ask you, "How much is it going to cost?" we're hearing responses such as, and I know you're well-intended, "It's too early to say," or "We don't know."

It's not too early. Little will get done during the months of July and August. The election is in November. Their fiscal year starts in January. Your assessment starts three months after. In the meantime, they'll have to pay for those four months. Our fiscal year is April 1. I think time is of the essence here. That's why we're asking that you delay this.

The Chair: Shall the motion carry? Carried.

Next is an NDP motion 30.

Mr Pouliot: I move that section 373 of the Municipal Act, as set out in section 55 of the bill, be struck out and the following substituted:

"Waiver of increases for low-income seniors, etc

"373(1) Assessment-related tax increases on property in the residential/farm property class shall be waived for owners who are, or whose spouses are,

"(a) low-income seniors as defined in the regulations; or

"(b) low-income persons with disabilities as defined in the regulations.

"Definitions

"(2) For the purposes of this section,

"'assessment-related tax increases' means tax increases beginning in the year 2000 or beginning in a subsequent taxation year for which the day or one of the days as of which current value is determined for the purposes of assessment for the taxation year is different from the corresponding day or days for the previous taxation year;

"'owner' means a person assessed as an owner.

"Determination of assessment-related tax increase

"(3) The amount of an assessment-related tax increase shall be determined as follows:

"1. For a tax increase beginning in 2000, the assessment-related tax increase is the tax increase within the meaning of the definition of '2000 assessment-related tax increase or decrease' in subsection 372(2) reduced, if the tax increase is being phased in under a bylaw under section 372, by the amount not yet phased in.

"2. For a tax increase beginning in a subsequent year, the assessment-related tax increase is the amount determined in accordance with the regulations.

"Regulations

"(4) The minister may make regulations,

"(a) defining low-income seniors or low-income persons with disabilities for the purposes of subsection (1);

"(b) governing the determination of an assessment-related tax increase for the purposes of paragraph 2 of subsection (3).

"When waiver applies, ceases to apply

"(5) A waiver of tax increases under subsection (1) ceases to apply when the property is transferred to a person other than the owner's spouse.

"Amounts transferred by lower-tier municipalities adjusted

"(6) If a lower-tier municipality levies a tax rate for upper-tier purposes in respect of which there is a waiver of tax increases the amount of taxes the lower-tier municipality shall pay the upper-tier municipality shall be reduced accordingly."

It gives them a chance to be like the others. That's all it is. It brings forth the reality of the many who are on the waiting list, many of whom are among the most vulnerable. It gives them a tool to defend themselves. It does not strip them of their dignity. It restores faith in the system. That's all this does, and it's not very costly.

1630

Mr Kwinter: I apologize. I wasn't here. I don't know whether the government had any amendments for 373 or if it's just —

The Chair: The one immediately before, yes. It was carried.

Mr Kwinter: Can I get a clarification from the member from the NDP caucus, which applies also to the government provisions? Are there provisions in the regulations where it says, in 373(1), part of the "assessment-related tax increases on property in the residential/farm property class...for owners who are, or whose spouses are, low-income seniors as defined in the" bylaw? For example, if you are a millionaire and your wife has no income and you say, "I claim an exemption because I have a low-income spouse who has no income," is there a provision in the regulations to cover that?

Ms Bassett: It's up to the municipality to define, it says in our legislation. In the amendment the NDP had, I'm not sure.

Mr Kwinter: You know what I'm getting at? It says "or their spouse," if their spouse is a low-income senior. As I say, there are many senior citizen spouses who have no income. They are in no way needy of any kind of exemption, but it could be used as a loophole to say, "My spouse has no income, and I want to claim the exemption." Do we have an answer for that at all?

Ms Crane: If I could just clarify, as Ms Bassett has pointed out, in the government amendment the definition of "low-income senior" and "low-income disabled spouse" would all be defined by municipal bylaw, so it's up to the municipality to define what those terms would mean in their municipality.

Mr Kwinter: So the particular example I use would be covered, not included in this exclusion?

Ms Crane: The municipality determines all those parameters you were mentioning, the definitions of "low-income" "senior," "disabled," "spouse."

The Chair: Further comments or questions? Those in favour of the NDP motion? Those opposed? Defeated.

Shall section 373, as amended, carry? Carried.

I have no amendments for 374. Shall section 374 carry? Carried.

We're on section 375. The next amendment is one of the replacement motions you were given this morning. It says 31A at the top.

Ms Bassett: I move that the English version of subsection 52(3) of the Power Corporation Act, as set out in subsection 68(2) of the bill, be amended by inserting "of inside ground floor area" after "square metre" in the third-last line.

The explanation is that the French version was translated; the English was not.

The Chair: Comments or questions?

Ladies and gentlemen, bear with me. We are on subsection 55(375), down to where? This is very difficult to read.

Clerk of the Committee: This amendment is on page 42, at the top of the page, on subsection (3). It's the third-last line from the bottom.

The Chair: Bear with me. Before I deal with this amendment, shall section 55, as amended, carry? Carried.

I have no amendments for sections 56 to 67. Shall those sections carry? Carried.

We are now on section 68, which is the bottom of page 41. There is a replacement motion for government motion 31A, which Ms Bassett just read into the record. Are there comments or questions? Shall the motion carry? Carried.

Shall the section, as amended, carry? Carried.

I have no amendments for sections 69 to 75. Shall the sections carry? Carried.

The next motion I have is Liberal motion 32.

Mr Kwinter: I move that section 76.1 of the bill be amended by adding the following section to Part IV:

"Payments in lieu, federal and provincial governments

"76.1 The acts amended by this act continue to apply as though they were not so amended with respect to payments in lieu of taxes by the crown in right of Canada or the crown in right of Ontario."

At our hearings in Ottawa, in Port Colborne, we had various deputants appear before us concerned about what was going to happen to the revenues, or the lack of revenues in some cases, as a result of the repeal of this particular section, because they are quite dependent on federal and provincial payments in lieu of taxes. We just want to make sure this continues to apply in the act.

Ms Bassett: I would just point out to Mr Kwinter that the province is reviewing payments in lieu. It'll appear in another bill.

The Chair: Any further comments or questions? Those in favour of the Liberal motion? Those opposed? The motion is defeated.

Shall the section pass? Carried.

We're now on government motion 33.

Ms Bassett: I move that the bill be amended by adding the following section:

"Omitted business assessments

"77.1 Despite section 21, subsection 33(1) of the Assessment Act continues to apply with respect to business assessments relating to the 1997 taxation year or an earlier year."

This merely allows for omitted business assessments to be levied after 1997.

The Chair: Questions or comments? Shall the amendment carry? Carried.

Shall section 77 carry, as amended? Carried.

I next refer to NDP motion 34.

Mr Pouliot: I move that section 78 of the bill be amended by striking out "1998" in the second line at the end of paragraph 1 and substituting in each place "2000."

This is a time frame implementation.

1640

The Chair: Comments or questions? Those in favour of the NDP motion? Those opposed? The motion is defeated.

Shall section 78 carry? Carried.

We're now looking at NDP motion 35.

Mr Pouliot: I move that section 79 of the bill be amended by,

(a) striking out "1997" in each place it appears and substituting "1999"; and

(b) striking out "1998" in each place it appears and substituting "2000."

We're consistent. We're looking forward to a change in the time frame implementation.

The Chair: Any further questions or comments? Those in favour of the NDP motion? Those opposed? It is defeated.

Shall section 79 carry? Carried.

We are now looking at NDP motion 36.

Mr Pouliot: I move that subsection 80(1) of the bill be amended by striking out "1997" in the third line and substituting "1999" and by striking out "1998" at the end and substituting "2000."

The Chair: Those in favour of the NDP motion? Those opposed? It is defeated.

Shall section 80 carry? It's carried.

We are now looking at NDP motion 37.

Mr Pouliot: I move that section 81 of the bill be struck out and the following substituted:

"Bylaws under section 363 of the Municipal Act.

"81(1) In this section, 'section 363 bylaw' means a bylaw under section 363 of the Municipal Act as it read on December 31, 1999.

"(2) .Subject to subsection (3) a section 363 bylaw expires on January 1, 2000.

"(3) If a municipality passes a bylaw before the end of 2000 continuing a section 363 bylaw, the section 363 bylaw continues, despite the repeal of section 363 of the Municipal Act as it read on December 31, 1999, until the section 363 bylaw expires or is repealed."

The Chair: Did you want to explain the purpose of the motion, Mr Pouliot?

Mr Pouliot: In the interests of time, I'll just say that we want an orderly implementation of this statute. It takes time to digest and to assimilate, and they're going too fast.

The Chair: Those in favour of the NDP motion? Those opposed? It is defeated.

Shall section 81 carry? Carried.

We are now on government motion 38.

Ms Bassett: I move that section 82 of the bill be struck out and the following substituted:

"Unpaid business taxes etc.

"82. The Municipal Act, as it reads on December 31, 1997, continues to apply with respect to the following:

"1. Business taxes that remain unpaid on December 31, 1997, or that are levied after that date under subsection 33(1) of the Assessment Act as it applies under section 77.1.

"2. Other rates, charges or levies that remain unpaid on December 31, 1997, and that are not taxes on property."

This is really a complementary amendment to section 77.1, to permit the collection of taxes raised by omitted business assessments.

Mr Kwinter: Could I get a clarification of what these rates, charges or levies are that are not taxes on the property — just examples.

Mr Tassonyi: Those may be things like licence fees or water rates or sewer rates that are collected in like manner to taxes. They're not deemed as taxes but are

collected in like manner. We wanted the collection provisions that would apply to be retained.

Mr Kwinter: All these levies, taxes, are applied as to the property but they're not really considered property tax. Is that what you're saying?

Mr Tassonyi: That's correct.

The Chair: Further comments or questions? Shall the amendment carry? Carried.

There is another proposed amendment to the same section, NDP motion 39.

Mr Pouliot: I move that section 82 of the bill be amended by striking out "1997" in the second line and in the fourth line substituting, in each place, "1999."

The Chair: Those in favour of the NDP motion? Those opposed? The motion is defeated.

Shall section 82, as amended, carry? Carried.

We are looking at NDP motion 40.

Mr Pouliot: I move that subsections 83(1), (3) and (4) of the bill be struck out and the following substituted:

"Commencement

"83(1) Except as provided in subsections (2) and (4), this act comes into force on December 1, 1999.

"Same

"(4) Part II (sections 40 to 61) and sections 63 to 76 and 80 to 82 come into force on January 1, 2000."

Once again, this is changing the time frame implementation.

The Chair: Those in favour of the NDP motion? Those opposed? The motion is defeated.

We are going to NDP motion 41.

Mr Pouliot: I move that the bill be amended by adding the following section:

"Public hearings etc required

"83.1 Despite section 83, this act, other than subsection 4(1) and section 77, shall not come into force unless the following occur before December 1, 1999:

"1. An assessment is made of the land in the province as it would be made under the Assessment Act if the amendments to the Assessment Act in this act were in force.

"2. The Ministry of Finance prepares an analysis of the impact the assessment would have if municipal taxes were based on it.

"3. The assessment and analysis are made public and are tabled with the standing committee on finance and economic affairs.

"4. The standing committee on finance and economic affairs holds public hearings, including public hearings outside Toronto, on the assessment and the impact it would have if municipal taxes were based on it."

I've already told you more than I know. We know there's an impact study; we suspect there is one for the city of Toronto. We're asking that we become the rightful recipients, as critics of this bill, but apparently it's not forthcoming — they're not listening — so we're making a plea through an amendment to the act, saying, "Please give it to us."

The Chair: Any further questions, comments or confessions? Those in favour of the NDP motion? Those opposed? It is defeated.

Shall section 83 carry? Carried.

We're going to NDP motion 42.

Mr Pouliot: If you appreciated the last one, you'll love this one, Mr Chairman.

I move that section 84 of the bill be struck out and the following substituted:

"Short title

"84. The short title of this act is the Market Value Assessment Act, 1997."

We have been subjected to what is nothing less than a ritual, a charade, cheap tricks best performed at a tombola that's about to leave town. It's all the same. The veil is so thin they've been smoked out, so why don't we call it like it is? This is what the resolution says. It says: "Please come to your senses. Tell the truth. Call it something that people will understand and relate to, not to make an end run around the truth."

Surely you can acquiesce to this. It's not asking for a lot. You're not losing anything in that. I implore members of the committee, the short title of this act is the Market Value Assessment Act, 1997, and I so move.

Mr Kwinter: I think the member for the NDP is being totally unfair. I'd be prepared to support his amendment if there were a change to the short title of this act to the Actual Value Assessment Act, 1997.

The Chair: Further comments or questions? Those in favour of the NDP motion? Those opposed? The motion is defeated.

Shall section 84 carry? Carried.

We are now looking at an NDP motion referring to the long title of the bill.

Mr Pouliot: The following spells out the approximate principle associated with the movement, party, that we are, that of the NDP.

I move that the long title of the bill be struck out and the following substituted:

"An Act to Impose a System of Market Value Assessment on the Province of Ontario."

The Chair: Further questions or comments? Those in favour of the NDP motion? Those opposed? It's defeated.

Shall the title carry? Carried.

Shall the bill, as amended, carry? Carried.

Shall I report the bill to the House? Agreed.

This bill is complete. This committee stands adjourned until the call of the Chair.

The committee adjourned at 1653.

CONTENTS

Thursday 1 May 1997

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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